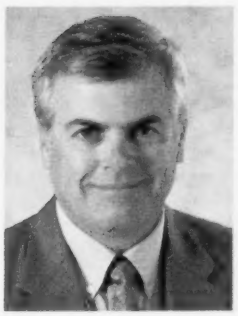
2010 FINANCIAL CONDITION & PERFORMANCE

CITY OF TORONTO FINANCIAL REPORT



A MESSAGE FROM THE DEPUTY CITY MANAGER & CHIEF FINANCIAL OFFICER

CAM WELDON

The 2010 Annual Financial Report for the City of Toronto provides an in depth look at the City's financial performance over the past year, and highlights the progress towards major goals for Toronto's residents and businesses.

One key goal of the City's long term financial plan is to ensure the City maintains its sizable investment in water, wastewater, roads, transit and other infrastructure in a state of good repair. The City is also making significant investments in expanding transit infrastructure to meet the demands of a growing population. This is putting increased pressure on our borrowing needs.

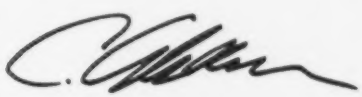
To soften the impact of the increased capital investment and to take advantage of historically low interest rates, the City refinanced part of its existing debt by using $600 million from the Toronto Hydro promissory note sale to pay down 10 year debt and borrowed a corresponding amount over a 30 year term for selected long-term projects such as the Spadina subway extension, new subway cars and street cars. This action lowered the annual debt servicing costs of the City by spreading the cost of these assets over their service lives.

In December of 2010, I informed Council of our intent to pursue three strategies to minimize the impact of the significant transit investments the City will make over the next five years:

1. Investigating the monetization potential of underutilized or underperforming assets to unlock potential new capital financing sources
2. Review of the City's procurement processes and construction contracts to lower the cost of capital construction
3. Continued pursuit of federal and provincial shared funding for transit infrastructure

Council will receive the results of these strategies for their 2012 capital budget deliberations.

For the fourth consecutive year, the City of Toronto has won the Government Finance Officers Association of the United States and Canada award for excellence in financial reporting. Summarizing the financial activities of such a diverse and complex city is extremely challenging and this award could not have been possible without the dedication of the professional team that I have the privilege to work with every day.



Cam Weldon
Deputy City Manager & Chief Financial Officer

FISCAL CAPACITY

Toronto enjoys a well diversified economy, relatively low business costs, a well educated workforce and good liveability, which allows it to be well positioned to compete internationally. The city government has a sound financial base, as reflected by its high credit rating (at AA+, one level below the maximum AAA) and its healthy accumulated surplus and strong cash position.

However, the City government's fiscal future may not be sustainable because of a structural funding shortfall. Simply put, the City currently does not have sufficient fiscal capacity to enable it to achieve fiscal sustainability based on its current level and types of services offered. This structural financial shortfall has been well documented and verified by independent authorities including the Conference Board of Canada.

The structural funding shortfall comprises two components:

- a cumulative component due to downloaded programs, and
- an annual component due to annual on-going operating shortfalls.

On the cumulative component, the City is inappropriately funding certain income redistributive programs transferred from the Province, and programs for which either other large mature cities do not fund or have an appropriate source of funding. These programs are currently supported largely by the property tax with some assistance from the other orders of government and include Ontario Works/Social Assistance, Social Housing, Transit (operating) and Court Security. In other jurisdictions such as U.S. cities, these programs are typically funded by a mix of income/sales taxes, and grants from other orders of government, if the city has to pay for them at all.

In addition, there are annual cost pressures from:

a) maintaining services and standards at inflation
b) wage settlements beyond the rate of inflation for certain union groups, e.g. police
c) social demographic demands
d) service enhancements
e) capital repair of ageing infrastructure, and
f) growing liabilities.

These cost pressures are not adequately offset by revenue growth because the City's main revenue stream – property tax – does not grow with the economy as currently administered. As well, to improve business competitiveness and to enhance jobs the City has embarked on a program of business tax relief, which is an additional cost. These costs have largely contributed to an annual funding shortfall and forced the use of ad-hoc one-time funding, which has built up over time in cumulative pressures. Staff estimated that the net average funding shortfall over the next ten years would be $145 million on an annual basis. This is explained in more details in the Long Term Financial Plan Update section.

The operating pressures from the shortfall have begun to be partially offset by the phased-in upload of Ontario Works (by 2018) and provincial court security (by 2012). The new taxes approved under the City of Toronto Act also helped to diversify the revenue base and offset these pressures. Yet, despite Council's efforts to constrain salaries and benefits and restructure debt, and despite the important but largely pending phase out of social assistance and court security costs by the Province, the shortfalls continue. These have been offset in successive operating budgets using one time revenues such as ad hoc provincial transit operating funding and reserve draws. However, the complete permanent funding solution has not yet been achieved.

The 2008-2009 economic recession had put City's fiscal capacity under stress. Revenues and expenditures that were sensitive to the economic conditions created additional operating budget pressures. As indicated earlier, certain economy-sensitive costs have not returned to the pre-recessionary levels. For example, Social Assistance (Ontario Works) caseload increased by about 26% in 2010 (2010 average: 94,635, 2008 average: 75,021), while the City's unemployment rate increased by the same proportion in the same time period (2010: 10.0%, 2008: 7.9%). On the other hand, declining commodity prices and low interest cost offset some of the budget pressures. It is expected that certain recessionary impacts (such as high unemployment) may continue into the next couple of years. However, the City's fiscal sustainability should not be negatively impacted by this recession over the long term.

PHYSICAL INFRASTRUCTURE

The City owns a significant amount of physical assets, comprising roads, expressways, bridges, traffic signal controls, water and wastewater treatment facilities, distribution and collection pipes, reservoirs, pumping stations, subways, streetcars, buses, civic centres, recreation facilities, public housing buildings, parkland and other lands. This infrastructure, excluding land, is currently estimated to be worth in excess of $62 billion. The City's capital program is driven largely by the costs of maintaining these physical assets in a state of good repair.

	Estimated Asset Replacement Value
Transportation Infrastructure	**$10 Billion**
Water & Wastewater Infrastructure	**$27 Billion**
Public Transit System	**$10 Billion**
Buildings, Facilities & Fleet	**$9 Billion**
Housing Infrastructure	**$6 Billion**
Total (excluding parkland and land)	**$62 Billion ++**

The City's road network, the majority of which was constructed in the 1950's and 1960's, is in need of major repair and rehabilitation. The City's water and wastewater network is similarly aged — 50% of the water pipes and 30% of wastewater pipes are more than 50 years old, while 7% of watermains and 3% of wastewater infrastructure are more than 100 years old. Due to fiscal constraints, the City's historical spending in the capital program is less than ideal. In addition, capital requirements resulting from population growth and demographic changes will add financial pressures. The City's 2002 Official Plan projects population growth of up to a million people in the City of Toronto, raising the population to 3.5 million people in 30 years. More buses, social housing, recreation centres, etc. are required, which will put pressures on the City's capital and operating budgets to provide additional services, build and operate new facilities.

The investment in physical infrastructure is typically funded by the following sources: Federal and provincial funding where applicable, reserve and/or reserve funds, development charges, donations, operating contribution and debt. Debt is the funding source of the last resort for capital purposes.

Subsequent to the 2008-2009 recession, the Federal and Provincial governments introduced economic stimulus program funding (under the Infrastructure Stimulus Fund (ISF) and the Recreational Infrastructure Canada Program in Ontario and the Ontario REC (RInC-REC)). The stimulus funding for the City totalling $460 million over two years ending March 31, 2011 leveraged the City's capital program and enabled the City to begin to renew the infrastructure that supports City services. In December 2010 the Federal Government announced an extension for completion of

ISF – RInC projects to October 31, 2011. This allows the City to maximize the utilization of funds available under these programs. As part of its 2009 stimulus budget, the Federal Government also created the "Municipal Infrastructure Lending Program (MILP)", which offered low-cost loans for municipalities to invest in housing-related municipal infrastructure. During 2010 and 2011, the City executed through MILP three loans totalling $120 million to finance capital works for roads and bridge improvements ($100 million) and municipal infrastructure related to social housing redevelopment ($20 million).

In setting the current Capital Budget and Plan, one of the principles is to ensure that available resources are utilized to mitigate State of Good Repair (SOGR) backlog and to minimize risks associated with delayed maintenance of the City's ageing infrastructure.

CAPITAL FINANCING AND DEBT

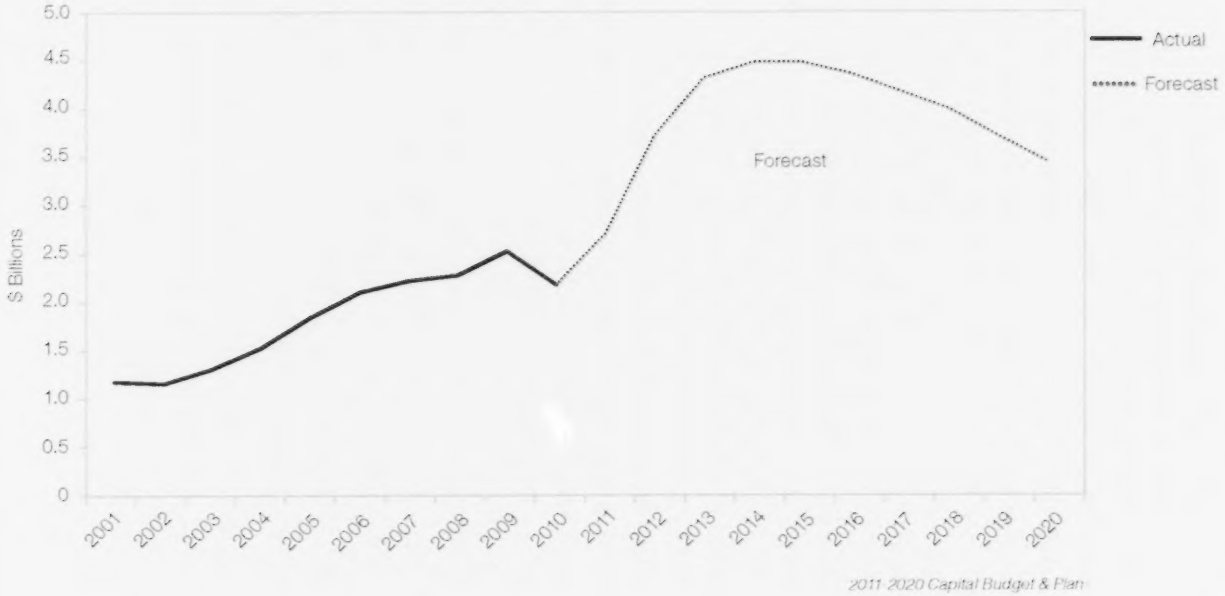
The City borrows to fund capital expenditures. (It cannot borrow to fund operating expenditures under the City of Toronto Act). The goal for capital financing is to maximize all funding from external sources, including Federal and Provincial Governments, development charges, donations and reserve funding, before using City's own revenue sources, namely operating contribution and issuance of debt. Toronto has enjoyed relatively low debt levels; however, in light of the growing capital infrastructure needs, there is a sizeable and growing gap between future capital expenditure needs and ongoing sustainable revenue sources. The City does not have the fiscal capacity for necessary growth related expenditures, e.g. TTC, Transportation, etc. For the next ten years, the TTC is projected to make up the majority of the new debt required to fund the City's capital requirement. In fact, no new debt is required to fund the City's programs except for the TTC by 2014.

The City has implemented a framework for developing multi-year capital and operating budgets, and ensured that limited resources are aligned to priorities to maximize the benefits for Toronto's residents.

The City in 2010 refinanced parts of its current and future debt by paying down existing debt, and borrowed funds for selected projects on 30-year terms as opposed to the current 10-year term. The 30-year debt was used to finance long term assets and more closely match the life span of the infrastructure being built or purchased, e.g. subway tunnels and subway cars. The City used the proceeds of the Toronto Hydro promissory note, which had been dedicated to two specific areas of investment (Spadina subway and Waterfront development), and paid down approximately $600 million of existing debt. Current estimates showed that the City's net long-term outstanding debentures would increase from $2.1 billion at the end of 2010 to peak at just over $4.2 billion in 2015 (mainly due to Pan Am Games and the TTC), and decrease to $3.4 billion by 2020 as shown in the chart below.

CUMULATIVE NET DEBT

(TAX-SUPPORTED)

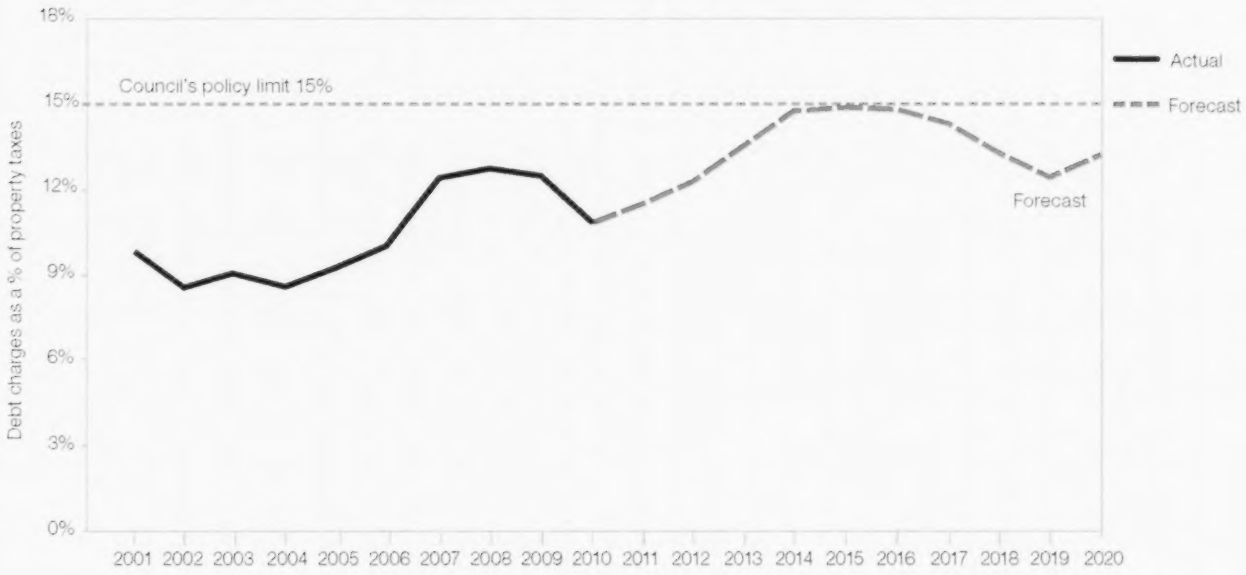


2011-2020 Capital Budget & Plan

City Council previously approved a debt service guideline such that the debt service cost should not exceed 15 per cent of property tax revenues in a given year. Although only a guideline, this limit means that at least 85 cents on each tax dollar raised is available for operating purposes. The debt refinancing strategy will help manage the pressures of debt repayment related to the annual operating budget. Repayment of principal and interest on the City's debt continues to be the second highest expense on the annual property tax bill. Lowering the annual debt payments, and spreading them out over a longer period, will allow the City to direct more property tax dollars to services each year.

The current forecast shows that the City's debt charges will be within this guideline in the next few years as illustrated below.

DEBT CHARGES WITHIN NEW COUNCIL'S POLICY LIMIT

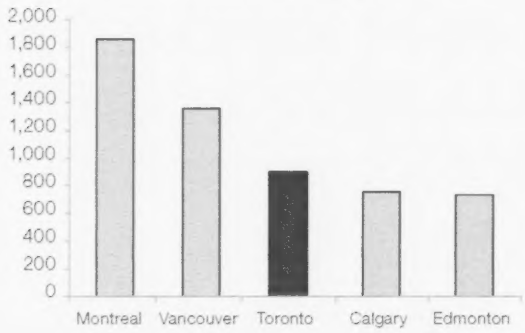


2011-2020 Capital Budget & Plan
Total debt charges include interest & principal payments

Overall, the City's debt burden is relatively modest and its net tax-supported debt per capita is comparable to other major Canadian municipalities. Interest costs also compared favourably with the other major Canadian municipalities, as illustrated below.

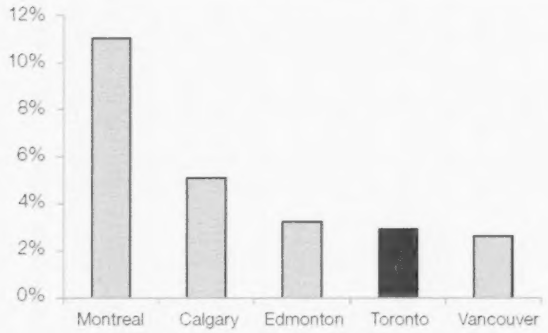
TORONTO'S NET DEBT IS COMPARABLE TO OTHER MAJOR CANADIAN CITIES

Net Tax-Supported Debt per Capita (2008 $M)



TORONTO'S INTEREST COST COMPARES FAVOURABLY WITH OTHER MAJOR CANADIAN CITIES

Interest Costs as a Proportion of Operating Expenditures (2008 %)



Source: DBRS Canadian Municipal Government Fact Sheet June 2010

CAPITAL MARKET AND INVESTMENT ACTIVITIES DURING 2010 AND THE OUTLOOK FOR 2011

Capital Market Activity

During 2010, the City issued the full $700 million of its approved debt program with a $600 million 30-year debenture issued in the public capital market and $100 million issued to the Canada Mortgage and Housing Company to take advantage of their low interest stimulus program (3.83% for $42.3 million and 3.98% for the remaining $57.7 million).

TCHC issued $200 million in senior debentures for a term of 30 years, maturing in 2040, with a yield of 5.395%. The debentures were placed privately with several institutional investors and demand for the securities was strong as they were considered to represent good value, given the yield, terms and TCHC's credit rating of AA- from Standard and Poor's. The funds were designated to provide long-term financing of social housing projects and related programs of TCHC and its affiliates and to develop replacement and new affordable rental housing projects for Regent Park, Railway Lands and West Don Lands.

TCHC also obtained a $61 million non-revolving 3-year loan to finance construction of a market condominium in Regent Park Phase 2. Interest is based on the bank's prime rate or BA rate plus 1.25%.

Investment Activity

The City manages several investment portfolios, each of which has specific objectives. Two individual portfolios that are managed interactively are the Bond and Money Market Funds. The Bond Fund is positioned towards funding the City's future reserve and reserve fund requirements and therefore takes a longer view of the market. The Money Market portfolio is primarily focused on ensuring that adequate liquidity is maintained to meet the immediate cash flow requirements of the City's daily operations.

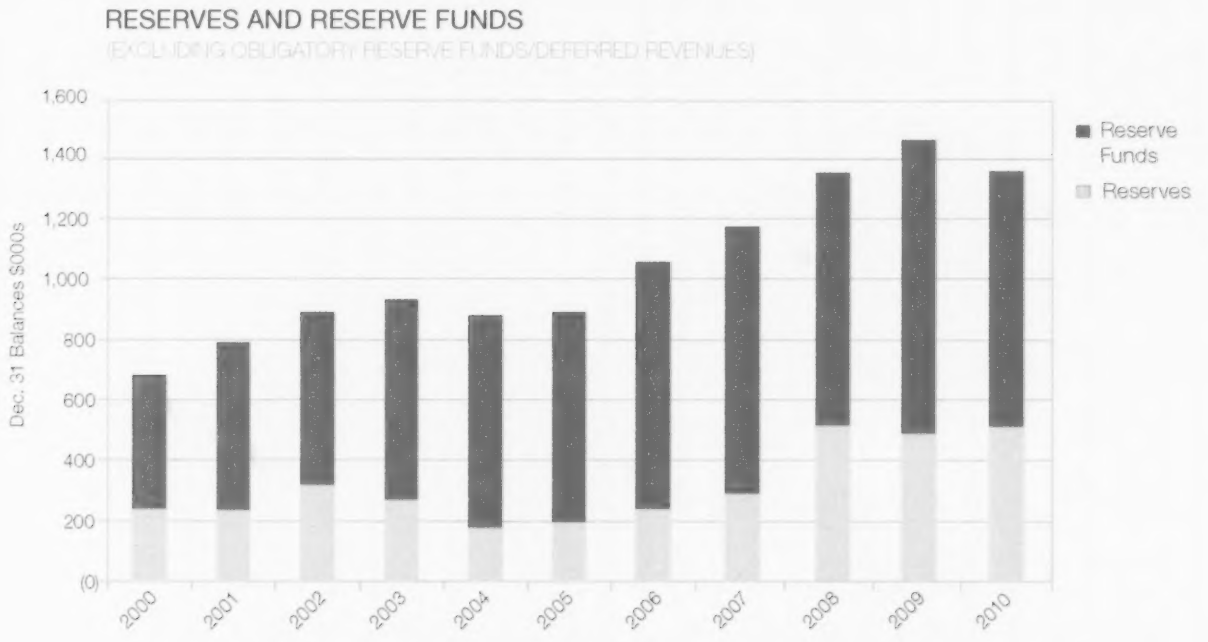
Despite a lower portfolio balance and historically low interest rates environment, the City earned an overall investment return of 4.2% in 2010 versus 4.7% in 2009 on a book value basis and exceeded the benchmarks on a market-value basis, achieving performance of 5.57% for the Bond Fund and 2.59% for the Money Market Fund. These results were achieved by minimizing the time that funds were held in lower-yielding money market securities while retaining investments that were held in the Bond Fund for as long as possible through active cash management, accurate forecasting and taking advantage of market opportunities to increase yields.

The City's bond portfolios continued to exhibit high credit quality and liquidity as no bond or money markets investments were held with less than an "A" credit rating and 85% were rated "AAA" and 15% were rated "AA", consistent with the portfolio holdings over the past three years.

For 2011, higher short-term and a marginal increase in long-term interest rates should have a positive impact on the performance of the City's investment portfolios, providing an opportunity for a possible duplication of the excellent investment performance results achieved in 2010.

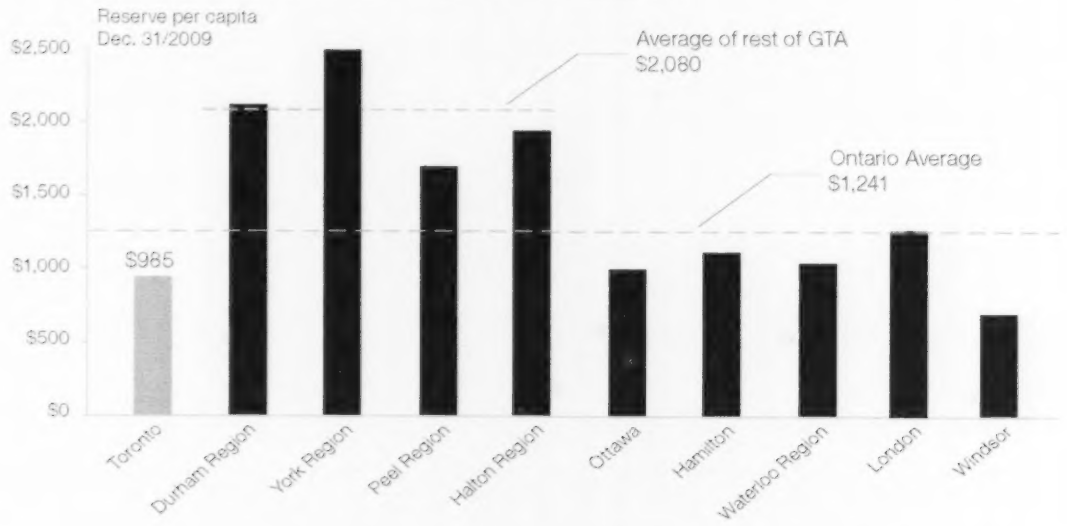
RESERVES AND RESERVE FUNDS

Reserves and Reserve Funds are monies set aside by Council to earmark revenues to finance a future expenditure for which it has authority to spend money, to defend the City against an unbudgeted or unforeseen event that may result in a budget deficit such as an economic downturn, to smooth out future program expenditures which may fluctuate from one year to the next, or to accumulate funds for future capital requirements or contingent liabilities. While the reserve fund balances would appear to be a large sum, it should be noted that the majority of these funds are committed.



On a comparative basis, the City's overall reserve fund balance on a per capita basis is much lower than those of the rest of the GTA, but comparable to those of other cities/regions such as Hamilton, Ottawa, London and Waterloo Region. Toronto's 2009 reserve per capita of $985 was less than half of that of the rest of the GTA ($2,080), and about 80% of the provincial average ($1,241). The City has established long-term reserve strategies for major reserves, e.g. employee benefits reserve and water and wastewater stabilization reserves, to address and mitigate the inadequacy, including determining needs and establishing contribution policies.

RESERVE LEVELS ARE LOWER THAN THE REST OF GTA
BUT COMPARABLE TO OTHER CITIES/REGIONS



Sources: Ontario Ministry of Municipal Affairs & Housing - 2009 FIR
Regional data consolidated for upper and lower tiers
Balances include Obligatory Reserve Funds/Deferred Revenues

DEFERRED REVENUES

Funds that are set aside for specific purposes by legislation, regulation or agreement and may only be used in the conduct of certain programs or the completion of specific work are reported as Deferred Revenues (previously Obligatory Reserve Funds). These include funds received from the other orders of government, Development Charges or third parties earmarked for certain purposes, e.g. Transit, Social Housing, Parkland Acquisition, Long Term Care Homes and Services. These amounts are recognized as liabilities in the year the funds are deposited, and received into revenue in the fiscal year the related expenditures are incurred or services performed. The balance of such funds categorized as Obligatory Reserve Funds as at December 31, 2010 was $1.1 billion. These funds are all committed, some of which will be used to fund some of the City's priority capital needs like transit expansion, and are not available at Council's discretion.

REVENUES

PROPERTY TAX

Property tax revenue is the City's single largest source of revenue. The City collects $3.6 billion from residential and business property owners, which represents 38% of its total tax-supported Operating Budget.

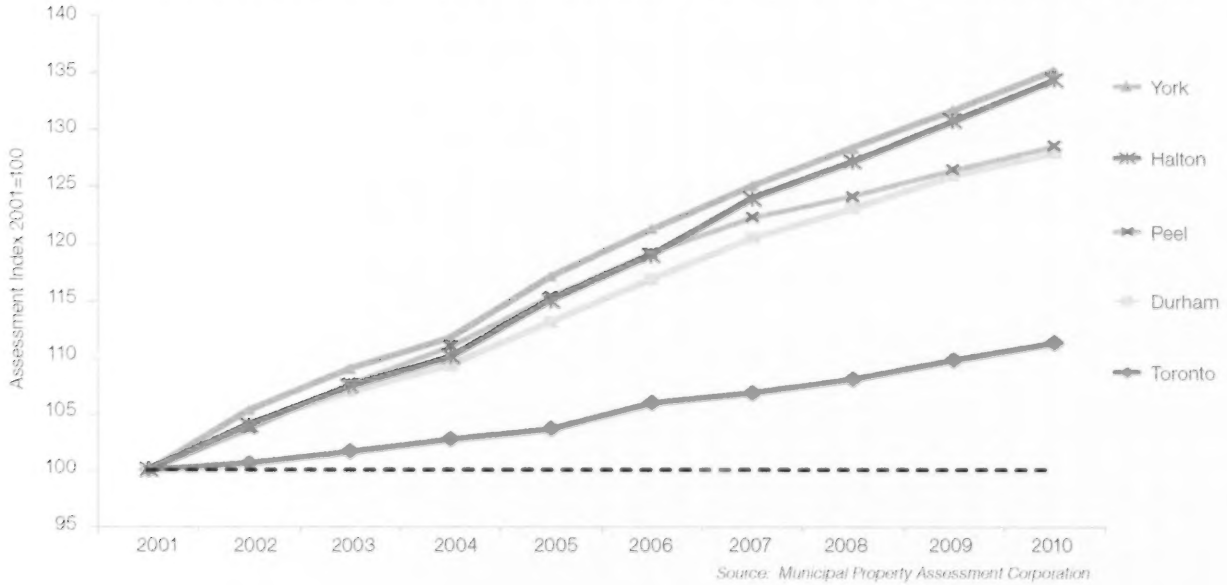
Every year the City is required by provincial legislation to establish tax rates that raise property tax revenues in the amount of the City's budgetary requirement. In addition, the City is also required to levy and collect property taxes for school purposes at the education tax rates prescribed by the Province.

The amount of property taxes payable by a property is determined by multiplying the Current Value Assessment (CVA) of a property by the applicable tax rate for that class of property (e.g., residential, commercial, industrial, or multi-residential). The total tax rate for a property class consists of a municipal tax rate necessary to meet the City's budgetary requirement and the education tax rate necessary to fund the provincially-determined costs of education.

The Municipal Property Assessment Corporation (MPAC), a provincial agency, is responsible for property assessment in Ontario and preparing the assessment rolls for municipalities on a Current Value Assessment (CVA) basis. The CVA of a property represents an estimated market value, or the amount that the property would sell for in an open market, arm's length sale between a willing seller and a willing buyer at a fixed point in time.

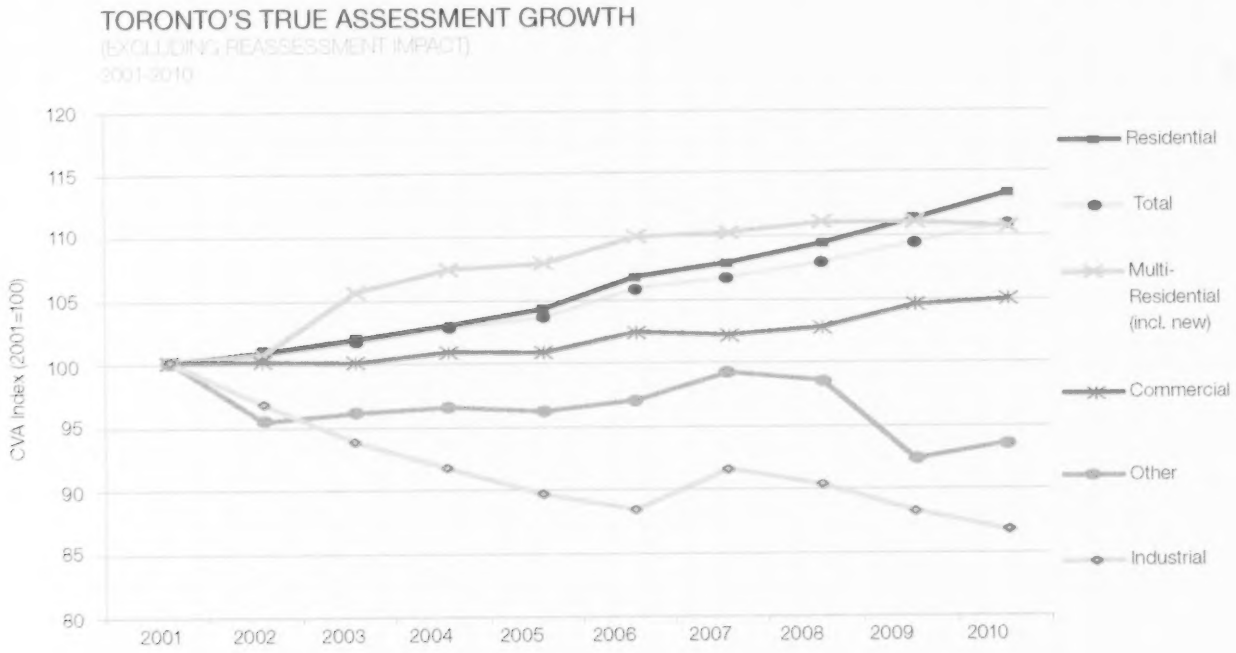
Over the last two decades, the GTA experienced quite remarkable economic and population growths following the recession of the early 1990's. The Toronto region (CMA) contains a number of the fastest-growing municipalities in Canada. The bulk of the new construction and the associated assessment increase are located in the surrounding areas in the GTA. For example, from 2001 to 2010 the rest of the GTA had assessment increases in excess of 28%: York Region: 35%, Halton Region: 34%, Peel and Durham Regions: 28%. By contrast, Toronto's property assessment in 2010 is just 11% above its 2001 level, partly due to the conversion of certain industrial properties into residential properties.

TORONTO'S ASSESSMENT GROWTH MORE MODEST THAN THE NEIGHBOURING REGIONS



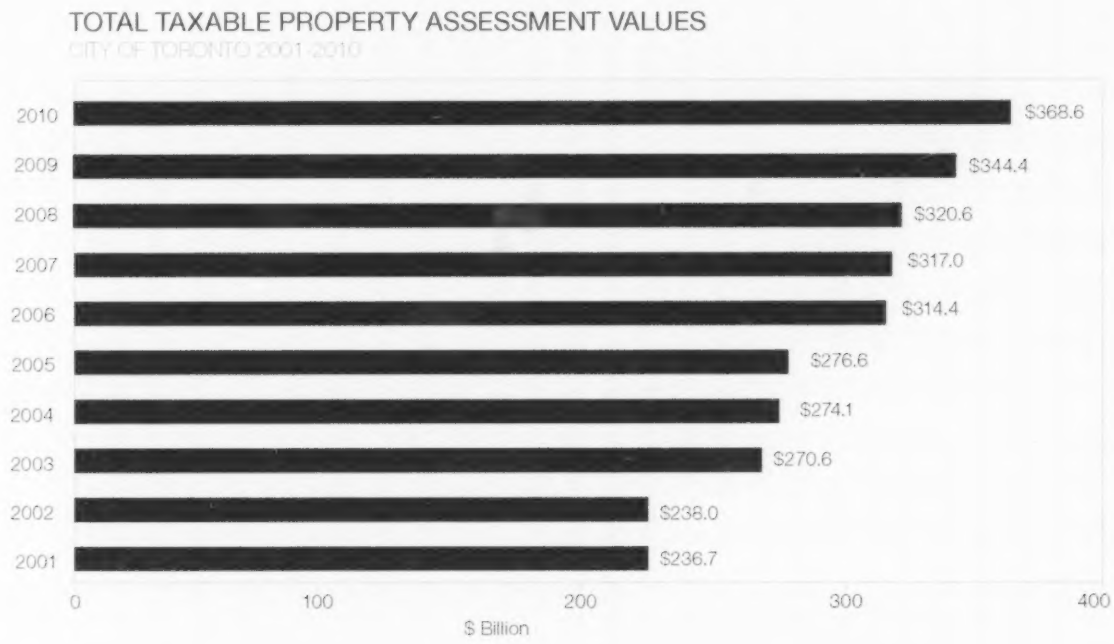
Source: Municipal Property Assessment Corporation

Since 2001, the total CVA of the City's properties has experienced a true net growth of 11% when the impacts of property reassessment are removed. Within the various property classes, residential properties had a true growth of 14%, and multi-residential properties had an increase of 11%. For the non-residential properties, while commercial properties had just a modest 5% in true assessment growth, industrial properties had a net decrease of 14%. This is illustrated in the chart below.



Property Assessment

The following chart depicts the total value of all property classes of the City of Toronto's current value assessment in each of the years from 2001 – 2010.



Effective 1998, Ontario municipalities whose commercial, industrial or multi-residential tax ratios exceed threshold ratios established by the Province, are restricted from passing on municipal levy increase to those classes. In Toronto, tax ratios for the commercial, industrial and multi-residential tax classes all exceed the provincial thresholds, as shown in the following chart, which means that no municipal levy (budgetary) increases can be passed on to these classes so long as the ratios exceed the threshold limits. This meant that instead of accessing the full assessment base, the City could increase tax rates only on the residential class at the time.

Toronto's Tax Ratios vs. Provincial Threshold Ratios

	Taxation Years										
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Provincial Threshold Ratios
Multi-residential	4.174	4.001	3.870	3.802	3.761	3.635	3.546	3.469	3.380	3.316	**2.74**
Commercial	3.798	3.513	3.516	3.762	3.802	3.674	3.584	3.506	3.373	3.267	**1.98**
Commercial Small								3.410	3.265	3.108	**1.98**
Industrial	5.301	4.120	4.120	4.273	4.273	4.090	3.920	3.740	3.547	3.375	**2.63**

Since 2004, the Ontario Government has in its annual budget introduced regulations, on a one-time basis, made adjustments to the municipal rules under the Ontario Property Tax System, which amongst other things, allowed tax rate increases on the non-residential classes to be no more than 50% of the rate for the residential tax class. Although the relaxing of the restriction on non-residential classes is not permanent, it does provide partial relief from the budgetary levy restrictions imposed by Provincial legislation.

In late 2005 Council approved a comprehensive property tax policy "Enhancing Toronto's Business Climate – It's Everybody's Business" to improve the business climate in the City, and consequently in 2006 implemented the policy of allowing for up to one-third of any residential tax rate increase to be applied to the Commercial, Neighbourhood Retail, Industrial, and Multi-Residential tax classes (i.e. a one percent non-residential tax increase for a residential tax increase of three percent), which would reduce its non-residential tax ratios to 2.5 times the residential rate over 15 years. In addition the policy provides for an accelerated tax reduction for neighborhood retail and small businesses that will see their tax ratios fall to 2.5 times residential within ten years (2015), as well as property tax relief measures for non-retail office, hotel and industrial developments.

BUSINESS TAXES HAVE BEEN REDUCED

Other City efforts to enhance competitiveness have resulted in a successful agreement with the provincial government to reduce business education tax (BET) rates for the City of Toronto businesses closer to the average of the surrounding GTA municipalities, creating a new, fair water rate structure for industrial and manufacturing companies and continuing the relief of development charges for the city's commercial industry.

The City of Toronto Act also mandates limits on re-assessment related tax increases to 5% per year for the commercial, industrial and multi-residential property classes, which for many properties in these classes may result in a phase-in towards their CVA level of taxes.

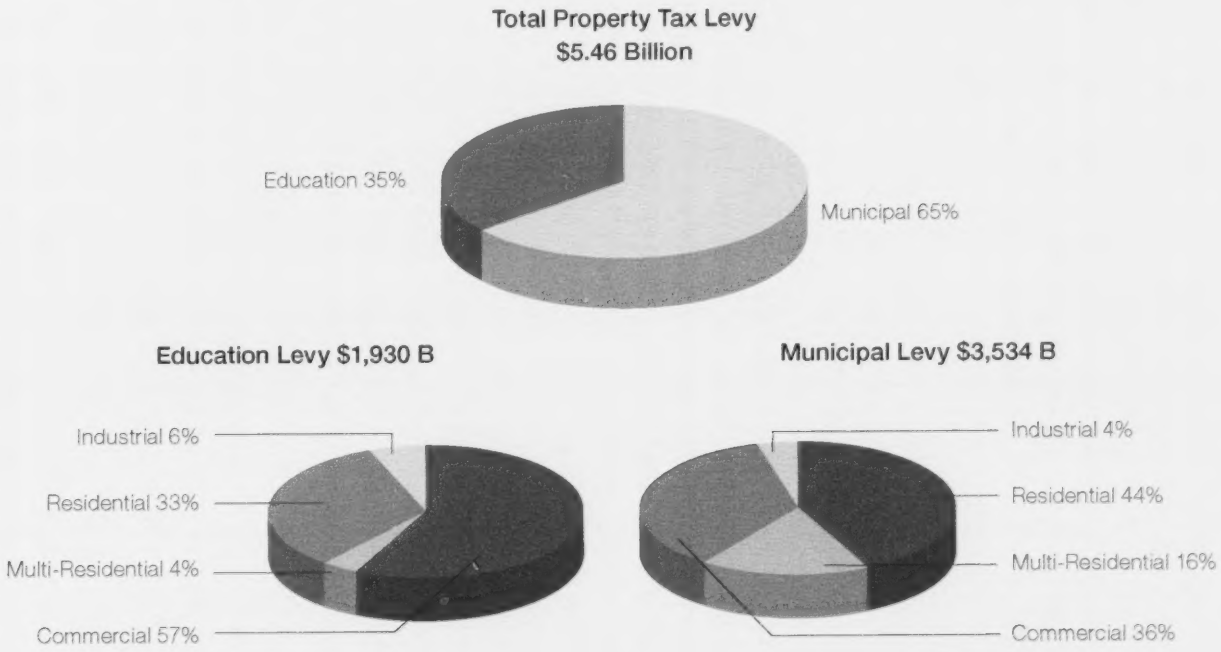
Special provisions to provide tax relief for low-income people and disabled persons, as well as charities and similar organizations, are also required.

Tax relief policies in effect for 2010 include:

- The cancellation of any tax increase for people aged 60 or older, or disabled person living with a household income of $36,000 or less, with a residential property assessed value of $ 525,000 or less and have owned and occupied the home as a principal residence for at least one year.
- The deferral of any tax increase for people aged 50 years or older or disabled persons living with a household income of $ 50,000 or less and have owned and occupied the home as a principal residence for at least one year.
- A 40 percent rebate of taxes paid for registered charities owning or occupying space in commercial or industrial properties.

The following chart shows the total approved 2010 property tax levy totalling $5.46 billion, comprising $3.53 billion (65%) for municipal purposes and $1.93 billion (35%) for education purposes which the City collects on behalf of the Province of Ontario. The approved amounts may be different than the actual amounts received.

TORONTO 2010 PROPERTY TAX LEVY



The chart below illustrates the 2010 taxes payable for the average household in Toronto living in a residential property with an assessed value of $407,374:

	2010 Tax Rate	2010 Property Tax
Municipal Purposes	0.5895702%	$2,402
Education Purposes	0.2410000%	$ 982
Total	**0.8305702%**	**$3,384**

USER FEES

User fees are the City's second largest source of revenue. The City's User Fee Policy directive prescribes that, "where direct users can be identified, City user fees be established to recover the full cost of the relevant service and be increased by the rate of inflation, while ensuring that the most vulnerable are protected."

Total user fee revenues represent approximately 23% of total tax and rate-supported operating revenues. They include transit fares, parks and recreational fees, Water and Wastewater charges, as well as Solid Waste fees. The City's current user fee structures are at levels generally comparable to, and competitive with, the surrounding municipalities.

A new funding system for Solid Waste Management Services, the volume-based rate structure, was implemented November 1, 2008 to fund the service objective of 70% waste diversion. This funding plan transforms Solid Waste Management (garbage, recycling, green bin, litter prevention, landfill management and other diversion programs) from being property-tax-based to user fee-based, and its fees are now part of the Utility Bill, together with the water charges, that are sent to city residents and businesses. The entire Solid Waste Management program is now funded from revenue other than property taxes (including funding from Waste Diversion Ontario, sales proceeds from recyclable materials and user fees).

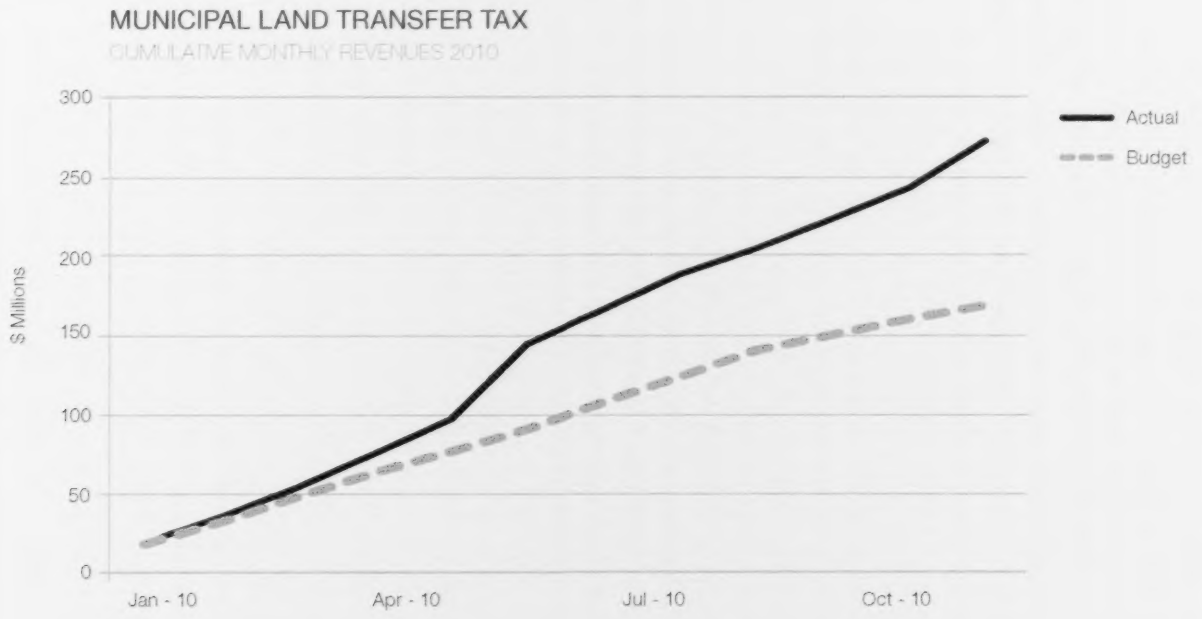
FUNDING TRANSFERS FROM OTHER GOVERNMENTS

The City receives grants and subsidies from other orders of government which are mainly for mandated programs such as Social Assistance, Child Care, Public Health, Social Housing, and transit funding. These transfers represent about 19% of the total tax-and rate-supported Operating Budget.

OTHER TAXATION

The City of Toronto is the only Ontario municipality with the legislative authority (City of Toronto Act, 2006) to allow it to levy taxes other than property taxes. The Municipal Land Transfer Tax (MLTT) was implemented on February 1, 2008, and Personal Vehicle Tax (PVT) on September 1, 2008. In 2010, the two taxes brought in revenues in excess of $320 million, or approximately 3% of the total tax-supported Operating Budget.

Consistent with the strong Toronto real estate market, the MLTT revenues significantly exceeded expectations in 2010. The initial recovery in the real estate market that started in late 2009 continued and grew, fuelled by low mortgage rates, and tax avoidance hysteria leading up to the July 1, 2010 introduction of the HST (which applied to certain new home purchases and transaction costs). The following chart illustrates how the actual 2010 monthly revenues far exceeded the budget throughout the year.



On December 16, 2010, City Council approved the termination of the City's Personal Vehicle Tax (PVT) effective January 1, 2011, following the Mayor's announcement to repeal the PVT.

CREDIT RATING

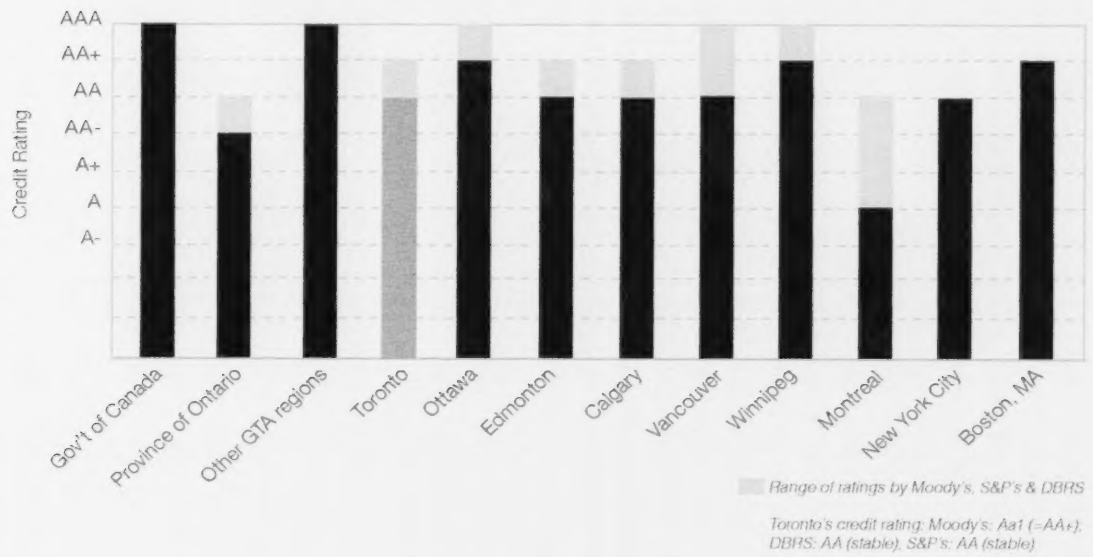
The City of Toronto is recognized as an important participant in global financial markets. The maintenance of a high quality credit rating is essential to ensure that the City's ability to access the most cost-effective world capital markets will continue as it needs to borrow funds for capital purposes.

A municipality's credit rating helps to determine the ability to borrow funds. Credit rating agencies assess the City's financial position by comparing it with other cities and regions. A number of factors affect the credit rating, such as quality of management; strength of economy; level of reserves, state of repair of assets, debt levels, etc. If a municipality's current debt levels and future trends appear to be high, this will have a negative impact on its credit rating. If debt levels are considered low, this will have a positive impact. The rating essentially indicates the City's ability to make payments on the debt now and in the future.

While the City's debt affects its rating, the rating affects the City's ability to borrow, as well as the cost of borrowing. A higher rating translates into a lower cost of borrowing, as well as a wider market for investors to invest in City debt. Below a certain rating, investors may have policies that don't allow them to purchase the City's debt. Then the City would have to offer a higher interest rate to attract investors.

The City's credit rating remains comparable to similar or larger North American cities such as New York, Boston, Vancouver and Montreal.

TORONTO'S CREDIT RATING



Toronto's credit rating: Moody's: Aa1 (=AA+), DBRS: AA (stable), S&P's: AA (stable)

Currently, the City of Toronto's credit ratings are:

- AA with a stable trend from the Dominion Bond Rating Service Ltd.(DBRS) – confirmed May 2010
- AA with a stable outlook from Standard and Poor's Canada (S&P's) – December 2009
- Aa1 with a stable outlook from Moody's Investor Service – confirmed March 2010

City of Toronto's Credit Rating History	1997	1998-2001	2002-2010
DBRS	AAA	AA (high)	AA
Standard and Poor's	AA+/AAA	AA+	AA
Moody's Investors Service	Aa2	Aa2	Aa1

Credit Rating agencies regularly issue reports respecting the industries and individual issuers. Here are some of the excerpts from those reports that generally explained the high rating held by the City of Toronto.

"Toronto continues to have the deepest, most diversified local economy in Canada.... Toronto maintains a low debt burden compared with those of 'AA' rated peers..... The city has what we view as a relatively healthy liquidity balance, which has more than quadrupled since 2000.... Toronto plans to increase its debt burden substantially in the next three years to fund peak lifecycle maintenance requirements, tackle priority projects, and accelerate certain works to qualify for federal fiscal stimulus funding. The city estimates direct debt could reach C$4.2 billion, or 44% of projected operating revenues by 2013. This well exceeds its previous-year debt forecast of C$2.8 billion or 30% of operating revenue by 2011. Nevertheless, we believe Toronto's debt under the revised borrowing plan would still be relatively moderate. Moreover, to mitigate the impact of the revised borrowing plan on debt servicing, the city intends to finance long-term capital assets with 30-year debentures, which we expect will have a cheaper servicing cost in the early years compared with the 10-year debentures it currently issues"

Standard & Poor's, December 2009

"DBRS has confirmed the ratings of the debentures issued by the City of Toronto at AA. The trends remain Stable. The sound credit profile of the City remains supported by the ability to levy taxes on the large and well-diversified Toronto economy and a healthy level of liquid reserves, amounting to $1.8 billion at year-end 2009. DBRS notes, however, that the capital plan is expected to enlarge the tax-supported debt burden by about 50% by 2014 and will likely erode much of the flexibility..... In the coming years, growth in the debt burden will be driven by the extensive capital plan, which focuses on new transit infrastructure and investment in roads and bridges. All in, the capital spending pressure is forecast to push debt to a peak of roughly $3.8 billion, or $1,400 per capita, by 2014. This level of debt is viewed as manageable for the current rating given the strength of the economy and healthy level of reserves, but it will materially reduce the City's room to manoeuvre. ..... DBRS expects that Toronto can continue posting sound operating results if it maintains its recent fiscal resolve in dealing with base budget pressures and creates budget space to fund much-needed infrastructure investments."

DBRS May 2010

"The City of Toronto's debt rating of Aa1 reflects the city's low debt burden and corresponding low debt service ratios, as well as the positive operating results recorded by the city over the past several years despite challenging financial circumstances which have necessitated annual adjustments to its operating budget. The high investment-grade rating also reflects a large and diversified economy, which remains a source of credit strength, providing access to a broad tax base. Moreover, the rating is supported by the city's high levels of net cash and investments, which provide substantial liquidity that could be tapped to mitigate unanticipated shocks, a considerable measure of safety for debenture holders. These high levels of internal liquidity are also reflected in the Prime-1 (P-1) rating assigned to its US commercial paper program."

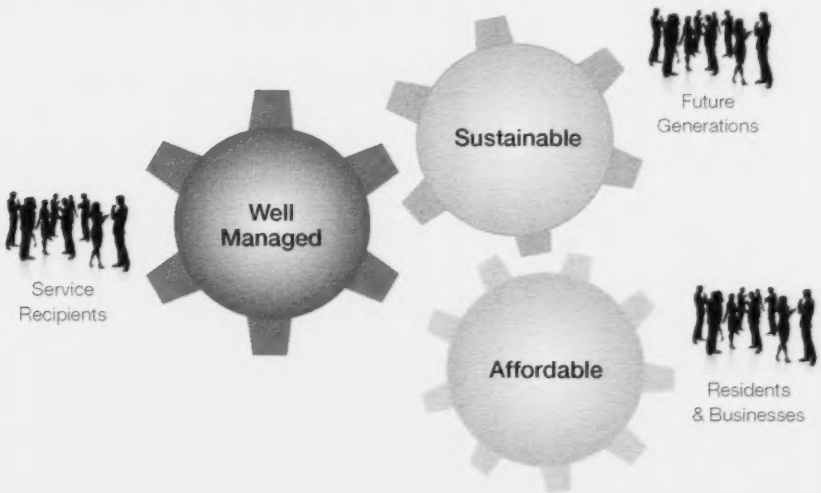
Moody's Investors Service, April 2011

LONG TERM FINANCIAL PLAN UPDATE

The City of Toronto has a Long Term Financial Plan, the goal of which is to ensure the City is in a sound financial condition and can finance services to the public and stakeholders on a sustainable basis. The City's vision for the Long Term Financial Plan is three-fold:

- Well managed — for service recipients
- Sustainable — for future generations, and
- Affordable — for residents and businesses

CITY'S LONG TERM FINANCIAL PLAN VISION



What we mean by Well Managed (for service recipients):

- The City should be operating efficiently and can demonstrate that it is
- Programs should be continually reviewed to ensure they are effective and relevant, and changed when they are not

What we mean by Sustainable (for future generations):

- Assets should be maintained in a state of good repair
- Assets no longer used should be sold, and proceeds used for re-investment or debt reduction
- New assets should be acquired only when necessary and affordable
- Debt should be held to a manageable level, used only for long-lasting assets
- Appropriate funds should be set aside for future obligations
- Future trends should be planned for

What we mean by Affordable (for residents and businesses):

- Property taxes should be predictable, affordable and competitive with the rest of the GTA region — continue re-balancing of non-residential and residential taxes
- User fees should be competitive with the rest of the GTA region
- Subsidies to residents and businesses should be transparent
- Necessary increases in taxes and fees should be in line with inflation and appropriate cost recovery
- Income support programs should be funded through income or consumption based revenues, not property taxes
- Provincial cost sharing should recognize the benefit that some City services accrue beyond the City's borders

In 2005 City Council unanimously approved the City's first ever comprehensive Long Term Fiscal Plan. The Plan identified major financial issues relating to Expenditures, Revenues, and Assets & Liabilities. The following LTFP Scorecard summarizes the eight major financial issues identified in the 2005 Plan, and the current status. In the Scorecard:

✔ = condition has improved or compares favourably

– = condition has stabilized or work is in progress with some noticeable results

✘ = no progress has been made

Our focus should be on those areas identified as work in progress or no progress.

Major Financial Issues

Identified in the Long Term Fiscal Plan 2005	Current Status	Score (2011)	Score (last year)
Well Managed (Expenditures): • City has a higher cost structure for some services than other municipalities in GTA	Costs "restrained"	✔	
• Demands for growth not adequately funded	Growths in expenditure and revenue being balanced	–	
• Variability in certain program expenditures from year to year, e.g. economic downturns	Social Services & Court Security upload. Restoration of full 50% funding on Ontario Works administration costs	✔	
Affordable (Revenues): • Business taxes not competitive	Improving business competitiveness	✔	
• Inadequate revenue sources to fund responsibilities	Revenues diversified	–	✔
	User Fees enhanced	–	✔
	Provincial 50% TTC Operating Funding	✘	–
	Share of HST	✘	
Sustainable (Assets & Liabilities): • Investment in ageing infrastructure lagging • Employee benefits and other liabilities not adequately funded	• 10 year capital plan • More than 60% to be spent on State of Good Repair	✔	
	Debt increase mitigated	–	✔
	Sick Pay liability partially capped, but some liabilities still growing	–	

Legend

✔ Improving or compares favourably – Stabilizing or work in progress ✘ No progress

Since 2005, the City has made significant progress addressing the majority of those financial issues. On others there have been some setbacks since last year. For example, the cancellation of Personal Vehicle Tax in 2011 has limited the City's revenue diversification. The City is in the process of conducting a Comprehensive User Fee Review and the results are expected to come out later in 2011. The Province of Ontario has provided ad hoc transit operating funding in the past, but the City is still seeking permanent provincial funding for 50% of TTC's operating requirement on an on-going basis. Debt is projected to increase in the next few years and peak in 2015 due to the life-cycle costs for major assets including transit and transportation, despite debt restructuring in 2010. The City is actively looking at minimizing the peak through alternate financing sources such as monetizing under-utilized assets like real estate, reducing the cost of the capital program through better procurement methods, and a thorough review of the need and timing of capital asset purchases over the life of the capital plan.

The following table summarizes the City's current financial position, listing its strengths while contrasting with the corresponding areas of concern:

Strengths	Areas of Concern
1. City has very high credit rating (AA+, one level below maximum AAA)	
• Modest level of debt	• Current level of debt insufficient to fund TTC growing capital program
• High reserve levels for capital	• No/low reserves for financial resilience, e.g. stabilization reserves
• Strong and balanced economy o Financial services o Knowledge industries, e.g. I&T o Culture	• Unemployment rate has not returned to pre-recessionary level
• Stable political environment	• Imminent Provincial and Federal elections
• Well established financial planning/management	• Future enhancements being implemented
2. Residential property tax rates among lowest in Province	Business property tax rates higher than 905 and most other large North American cities
3. Revenue base more diversified than average	• Recent loss of Personal Vehicle Tax • User fee cost recovery levels need review

LONG TERM FINANCIAL PLAN — ACTION PLAN

The action plan for the City's long term financial plan can be classified into short-term and long-term plans:

- Short-term:
  - City Initiatives:
    - Core service reviews (involving all Divisions and ABCs)
    - Detailed service efficiency review (involving all Divisions and ABCs)
    - Comprehensive user fee policy
    - Procurement policy and practice review
    - Asset monetization review

- Medium/Long-Term:
  - Funding relationship with other orders of government
    - 50% TTC operating funding
    - Social Housing upload/ National Housing Strategy
    - Sharing of HST

The City will need to show leadership in tackling its own issues and make the case for even greater financial involvement of the other orders of government.

PERFORMANCE MEASUREMENT AND BENCHMARKING RESULTS

To provide context when examining Toronto's performance, it is important to consider that municipal property taxes represent only 7.6 per cent of the total taxes, in all forms, paid annually by an average Ontario family. These various forms of taxes include income taxes, Employment Insurance and Canada Pension Plan premiums, consumption taxes such as the HST, and embedded taxes, which are included in the price of gasoline, liquor and tobacco. The discussion on Toronto's performance that follows is focussed on how Toronto utilizes its 7.6 per cent share of the total tax dollar. Toronto's 2009 Performance Measurement and Benchmarking Report Benchmarking Report can be found at: *http://www.toronto.ca/legdocs/mmis/2011/ex/bgrd/backgroundfile-38170.pdf*

The report includes:

- Service/activity level and performance measurement results (efficiency, customer service and community impact) in 28 different service areas;
- Up to ten years of Toronto's historical data to examine internal trends;
- A comparison of Toronto's 2009 results externally to 14 other municipalities through the Ontario Municipal CAOs Benchmarking Initiative (OMBI);
- Colour coded summaries of results;
- A description of 2010 achievements and planned 2011 initiatives that will further improve Toronto's operations in the future.

By examining our own operations and by working with other municipalities through OMBI, these processes encourage Toronto's service areas to continuously look for opportunities to improve operations and performance.

Summary of Toronto's 2009 Performance Measurement & Benchmarking Results

Toronto is unique among Ontario municipalities because of its size, its density, and its role as the centre of business, culture, entertainment, sporting and provincial and international governance activities in the Greater Toronto Area. Despite these unique characteristics, there is value in making comparisons of performance measurement results to other municipalities to assist in understanding how well Toronto is doing. Through the OMBI partnership, performance measurement results are shared between municipalities and are included in Toronto's Benchmarking Report. Toronto's results are ranked and placed in quartiles relative to 14 Ontario municipalities that comprise OMBI. OMBI's members are comprised of eight single-tier cities/counties and six regional or upper-tier municipalities. Combined, the OMBI municipalities serve more than 9.3 million residents, or 73 per cent of Ontario's population.

Internal Trends – Service/Activity Level Indicators

Of the 42 service/activity level indicators included in the Benchmarking Report, 69 per cent of results remained stable or increased in relation to 2008. Examples of some of the areas in which Toronto's 2009 service levels or levels of activity increased include:

- increased number of police officers
- more public transit vehicle hours
- greater investment in childcare
- expanded library collection and increased library hours
- additional parking spaces

As a result of the recession and the 39 day municipal strike there were some areas of decreased activity in 2009.

Internal Trends – Performance Measures

Of the 127 performance measurement results, of efficiency, customer service and community impact included in the Benchmarking Report, 68 per cent had results that were either improved or remained stable relative to 2008. Examples of areas where Toronto's 2009 performance improved include:

- continued high rate of resident satisfaction in long term care home
- decreased crime rates in all crime categories
- increased public transit trips per person
- decreased cost of wastewater, collection, treatment and disposal
- improved adherence to timeliness standards for building permit review and inspections
- reduced EMS off load delays at hospital
- increased rate of return on investments
- improved pavement quality of roads

External Comparisons – Service/Activity Level Indicators

Of the 51 service/activity level indicators in the Benchmarking Report, Toronto's results were higher than the median of the OMBI municipalities for 53 per cent of the indicators. Between Toronto's 2008 and 2009 benchmarking reports, there was little change in Toronto's quartile ranking for each of the service/activity level indicators in relation to other municipalities. Any changes in Toronto's quartile ranking for individual indicators will likely only occur over much longer time periods. Some of the key factors that influence Toronto's results for service/activity level indicators in relation to other municipalities include:

- services where Toronto's size and high population density requires higher service levels, indicative of large densely populated cities, such as higher levels of police staff and transit vehicle hours
- higher needs and demands in a large city like Toronto for social programs such as childcare, social assistance, social housing and emergency hostels
- fewer facilities or less infrastructure can be required in densely populated municipalities like Toronto because of proximity and ease of access, while other less densely populated municipalities require proportionately more facilities or infrastructure to be within a reasonable travel distance of their residents. Examples include recreation facilities, libraries and kilometres of roads
- fewer emergency services vehicle-hours may be required in densely populated municipalities like Toronto because of the close proximity of vehicles and stations to residents, that allows for timely emergency response. Those municipalities with lower population densities may require proportionately more vehicle-hours in order to provide acceptable response times.

External Comparisons – Performance Measures

Of the 118 performance measures of efficiency, customer service and community impact in the Benchmarking Report, Toronto's results are higher than the median of the OMBI municipalities for 48 per cent of the indicators.

Examples where Toronto has the top/best result of the OMBI municipalities include:

- lowest rate of governance and corporate management costs of single-tier municipalities
- highest pavement quality rating for our roads system
- highest rate of public transit usage
- lowest rate of residential fire related injuries
- lowest rate of prior year's property tax arrears (unpaid)
- highest revenue generated per off-street and on-street parking space

Additional examples where Toronto's performance is better than the OMBI median include:

- high rate of new residential housing units created
- better rate of leveraging City grants (to access other revenue sources) by recipient arts organizations
- shorter emergency response times than in many other municipalities
- high library usage rates
- lower youth crime and property crime rates
- high rate of resident satisfaction in long term care homes
- lower costs for building permit issuance and inspection (based on construction value)
- low social assistance and social housing administration costs

OTHER METHODS OF ASSESSING TORONTO'S PERFORMANCE

Other Report Cards and Indicator Reports

Toronto's Benchmarking Report focuses on performance measurement results in specific service areas; however, it is by no means the only type of reporting conducted by Toronto in this area. Links to other report cards or indicator reports issued by the City of Toronto, or, in association with the City, are noted below:

- Children's Report Card: *http://www.toronto.ca/reportcardonchildren*
- Homelessness and Housing Research and Reports: *http://www.toronto.ca/housing/research-reports.htm#hostels*
- Toronto Community Health Profiles: *http://www.torontohealthprofiles.ca/*
- Economic Indicators: *http://www.toronto.ca/business_publications/indicators.htm*
- Federation of Canadian Municipalities – Quality of Life Indicators *http://www.fcm.ca/english/View.asp?mp=1237&x=1115*
- Vital Signs – (Toronto Community Foundation) *http://www.tcf.ca/vitalinitiatives/vitalsigns.html*

World Bank Initiative to Develop City Indicators

In November 2005, Toronto staff joined with World Bank officials in an initiative to develop an integrated approach for measuring and monitoring the performance of cities. The objective of this initiative was to develop a standardized set city indicators that measure and monitor city performance and quality of life at a global level.

This initiative benefits Toronto by expanding its current benchmarking work beyond Ontario to include other large international cities.

The indicators cover a total of 22 theme areas. Eight of the themes relate to quality of life indicators such as civic engagement, culture, economy and the environment. Fourteen of the theme areas relate to city services and are designed to capture the service levels or amount of resources each city devotes to delivery of the service and the outcomes or impacts of that service on the city. Examples of service areas included are fire services, recreation services, police services, social services, solid waste management services, water and wastewater services.

As of May 2011, the GCIF had 130 cities as members including:

- Australia – Melbourne
- Brazil – Sao Paulo, Belo Horizonte, and Porto Alegre
- Canada – Montreal, Toronto and Vancouver
- Chile – Santiago
- Columbia – Bogotá and Cali
- France – Paris
- Indonesia – Jakarta
- India – Mumbai
- Italy – Milan
- Jordan – Amman
- Netherlands – Rotterdam
- Peru – Lima
- Portugal – Lisbon
- South Africa – Cape Town, Johannesburg and Durban
- Spain – Madrid and Barcelona
- USA – King County (Regional Seattle), Portland and Dallas

Toronto is a leader in this initiative, proactively providing measures and indicators to benchmark service delivery and quality of life. The ability to compare and benchmark internationally and to establish and share better practices through the available networks is invaluable. While this initiative will take some time before Toronto can report comparable results of other cities, it is anticipated that it will provide a valuable additional source of information to assess how well Toronto is doing from both a service delivery and quality of life perspective.

For further information on Global Cities Indicators Facility, please visit *http://www.cityindicators.org/*

Conclusion

The City continues to promote a continuous improvement culture in order to provide our citizens and businesses with services that are as efficient and effective as possible, looking for the optimal combination of efficiency and quality and beneficial impact on our communities.

For further information on Toronto's performance please visit our website at *http://www.toronto.ca/progress/*

TREASURER'S REPORT

The Consolidated Financial Statements are intended to provide Council, the public, the City's debenture holders, and other stakeholders, an overview of the state of the City's finances at the end of the fiscal year and indicate revenues, expenses and funding for the year.

The preparation, content and accuracy of the Consolidated Financial Statements and all other information included in the financial report are the responsibility of management.

As required under Section 231 of the *City of Toronto Act*, the financial statements are prepared in accordance with generally accepted accounting principles as set by the Canadian Institute of Chartered Accountants' (CICA) Public Sector Accounting Board (PSAB).

These Consolidated Financial Statements have been audited by Pricewaterhouse Coopers LLP whose role is to express an independent opinion on the fair presentation of the City's financial position and operating results and to confirm that the statements are free from material misstatement. The external auditor's opinion is to provide comfort to third parties that the financial statements can be relied upon.

Consolidated Financial Statements

The Consolidated Financial Statements include the following individual statements:

Name	Purpose
Consolidated Statement of Financial Position	Summarize the assets (financial and non-financial), liabilities, net debt, and accumulated surplus as at December 31st.
Consolidated Statement of Operations and Accumulated Surplus	Outlines revenues, expenses, surplus for the year and accumulated surplus at year end. This statement reflects the combined operations of the operating, capital, reserve and reserve funds for the City and its consolidated entities, and provides the calculation of the City's accumulated surplus at year end.
Consolidated Statement of Net Debt	Outlines the changes in net debt as a result of annual operations, tangible capital asset transactions, as well as changes in other non-financial assets.
Consolidated Statement of Cash Flows	Summarizes the City's cash position and changes during the year by outlining the City's sources and uses of cash.

The Consolidated Financial Statements combine the financial results of the City's divisions with the financial results of the agencies, boards, commissions ("ABCs") and government business enterprises that the City effectively controls. There are 109 entities that are directly included in the financial statements and these are listed in Note 1 to the Consolidated Financial Statements. There are also a number of subsidiaries of ABCs which are not included in the entity count above. The notes to the statements provide further detail about the City's financial results and are an integral part of the statements.

Consolidated Statement of Financial Position

The Consolidated Statement of Financial Position is the municipal equivalent of the private sector's balance sheet. This statement focuses on the City's assets (financial and non-financial) and liabilities. The difference between the liabilities and financial assets is the City's net debt, which represents the net amount that must be financed from future budgets.

The detailed breakdown of the accumulated surplus, including all of its components: amount invested in capital assets; operating fund, capital fund, reserve and reserve fund balances; and amounts to be recovered from future revenues, are reflected in Note 18 to the Consolidated Financial Statements.

The City has received funds for specific purposes under legislation, regulation or agreements. The recognition of these funds as revenues has been deferred until related expenses occur in the future. For example, development charges, parkland dedication fees and Federal and Provincial Government transfers received (such as public transit funding), are not recognized as revenues until such time as the projects are constructed. These restricted funds are included in liabilities as "Deferred Revenue" and not in the accumulated surplus. A breakdown of the City's deferred revenue obligatory reserve funds can be found in Note 10 (a) to the Consolidated Financial Statements.

As a result of the significant investment in tangible capital assets, there is a large accumulated surplus, which occurs at the same time that the City has a significant net debt, which must be financed through future revenues. Although tangible capital asset balances are considerable for municipalities – much larger on a percentage basis than any other level of government – they do not provide liquidity, and are not typically available for sale, the proceeds of which could be used for other purposes. It is for this purpose that tangible capital assets are not included in the calculation of net debt, arguably the most important financial statistic for governments.

Consolidated Statement of Operations and Accumulated Surplus

The Consolidated Statement of Operations and Accumulated Surplus is considered to be the municipal equivalent to the private sector's Statement of Income and Retained Earnings.

The Consolidated Statement of Operations and Accumulated Surplus provides a summary of the revenues, expenses, and surplus throughout the reporting period and outlines the change in accumulated surplus.

The 2010 budget values presented in this statement have been adjusted to reflect the differences between amounts as budgeted at the City on a modified "cash requirements" basis and amounts now recorded in these financial statements. Note 19 outlines the adjustments to the budget, particularly reduction of debt proceeds and payments, reduction of tangible capital asset purchases and inclusion of estimated amortization expense. These adjustments to budgeted values were required to provide comparative budget values based on the full accrual basis of accounting. The accrual based budget results in a surplus, as the City must fund reinvestment in assets at amounts greater than their historical cost.

Consolidated Statement of Net Debt

The Consolidated Statement of Net Debt is unique to governments. Other senior levels of government have been preparing this statement for a number of years. This statement focuses on the debt of the City, adjusting the annual surplus for the impact of tangible capital assets: mainly deducting the costs to acquire assets, and adding back amortization charged during the year.

Financial Condition

An important measure of any government's financial condition is its net debt: calculated as liabilities (e.g. trade and employment payables, mortgages and debentures) less financial assets (e.g. cash, receivables, and investments).

The City's net debt as at December 31, 2010 increased by $721M to $4.39B (2009 – $3.66B). This increase in the City's net debt is primarily due to the amount of tangible assets purchased during the year. (See Consolidated Statement of Change in Net Debt).

The City's net long-term debt (Note 14) increased by $92M primarily due to increase in new net long term debt issuances of $253.8M by Toronto Community Housing Corporation (TCHC) offset by net long-term debt decrease of $163.7M at the City, as a result of the lump sum payment of $600M into the sinking fund due mainly to the funds received from the sale of Note Receivable from Toronto Hydro Corporation to a third party on April 1, 2010.

In order to improve the City's net debt position, the City continues to implement its Long Term Fiscal Plan. Some key measures included in the plan are: tax policies which enhance economic competitiveness and improve Toronto's business climate, utilization of user rate adjustments for environmental and cost control purposes, and working with the Province to continue and expand the upload of social service program costs.

While the debt financing has grown and will continue to grow due to state of good repair funding requirements and increased focus on improving public transit, the City's updated Capital Plan, inclusive of enhanced federal and provincial funding, combined with the recent approval of the long-term debt restructuring strategy, ensures a solid financing plan is in place for the next five years.

The positive effects of implementing these financial plans are reflected in the City's AA and Aa1 (Moody's) independent credit ratings.

Another key indicator of a government's financial condition is the amount that must be recovered from future revenues as included in Note 18 of Consolidated Financial Statements. These liabilities include TCHC mortgages, debentures, employee benefit liabilities, property and liability claim provisions, landfill liabilities and environmental liabilities. In 2010, the total amount that will be recovered from future property taxes and other revenues grew by $205M to $6.60B. This increase mainly consists of:

- an increase of $85.5M in employee benefits liabilities;
- an increase of $63.1M in other (mainly property and liability claims provision); and
- an increase of $58.9M in mortgage and long term debt.

Table 1 outlines the trend in financial asset and liability growth over the last 5 years.

Table 1

Net Debt – 5 Year Summary

(in thousands of dollars)

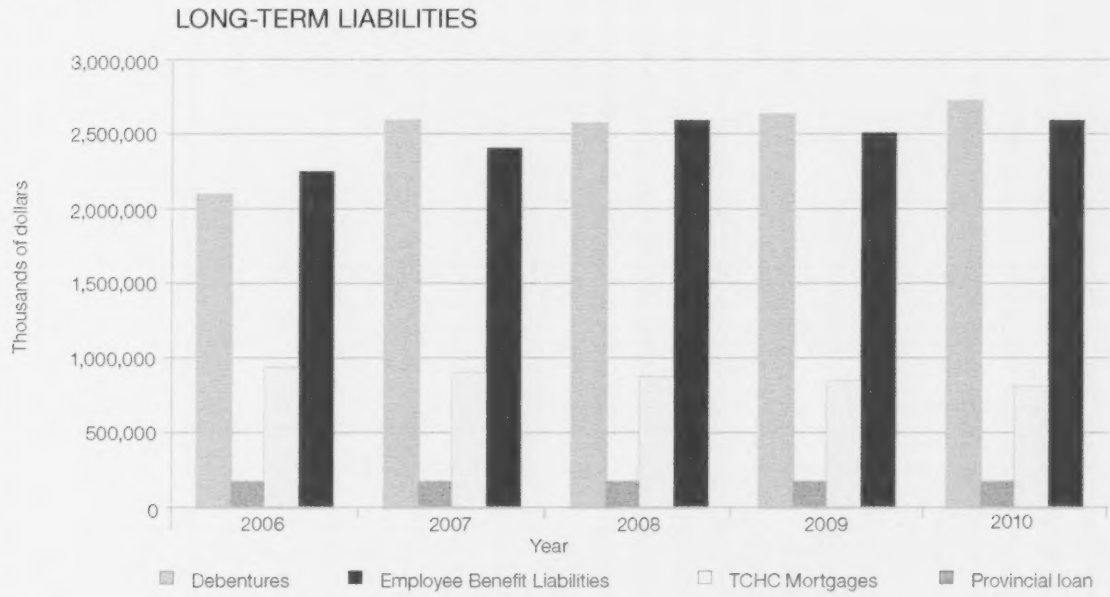
Net Debt	4 Year Average Annual Increase	2010	2009	2008	2007	2006
Liabilities	6.57%	10,899,622	10,392,487	10,647,259	9,631,062	8,451,699
Financial assets	2.08%	6,513,984	6,728,291	7,109,217	6,580,328	5,999,744
Net Debt	**15.65%**	**4,385,638**	**3,664,196**	**3,538,042**	**3,050,734**	**2,451,955**
Percentage Increase		**19.69%**	**3.57%**	**15.97%**	**24.42%**	

The City's net debt has increased by a compound annual rate of 15.65% over the last four years, attributable to increases in long-term debt to third parties and in long-term employee benefit liabilities.

The significant growth in long-term debt has been driven mainly by the need to finance transit capital expenditures. The growth of employee benefit liabilities has been driven significantly by decline in discount rate, an aging demographic (employees and retirees), increased utilization of the plan, increased cost of drugs and services and de-regulation of government sponsored benefits which are transferred to private benefit plans. Council has attempted to contain some of the growth of this liability through collective bargaining, including eliminating the vested sick leave plan for new employees for Local 79 and 416 hired after July 31, 2009.

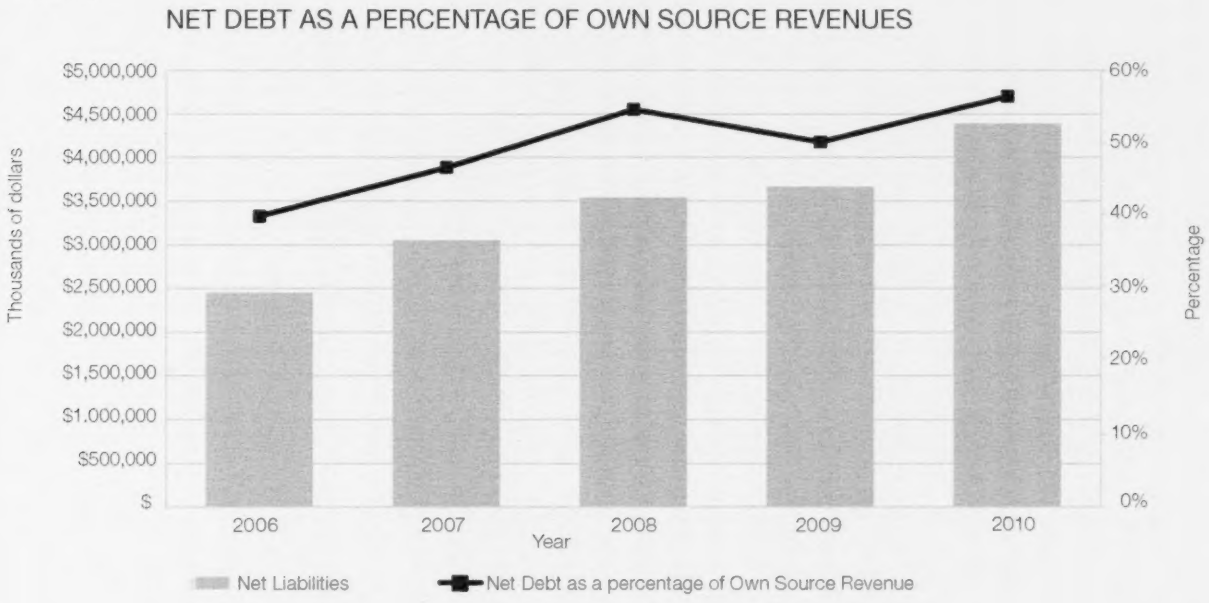
Chart A provides the breakdown of long-term liability growth by debt type.

Chart A



Information on the mortgage liabilities of TCHC is provided in Note 13, the provincial loan and the City's debenture debt is outlined in Note 14, while further detail about the City's employee benefit liabilities is provided in Note 15 of the Consolidated Financial Statements.

Chart B



To put the City's net liability into a different context, Chart B expresses the net debt as a percentage of the City's own source revenues (excluding government transfers and earnings from investment in government business enterprise (GBE's). The net liability as a percentage of own source revenues has grown from 40.0% to 56.4% in the last five years.

The City's net debt substantially exceeds the City's reserve and reserve fund balances as shown in Chart C. The vast majority of the reserve and reserve funds are committed to fund capital projects identified in the ten year capital plan, and future known liabilities, leaving only a small portion available for discretionary spending.

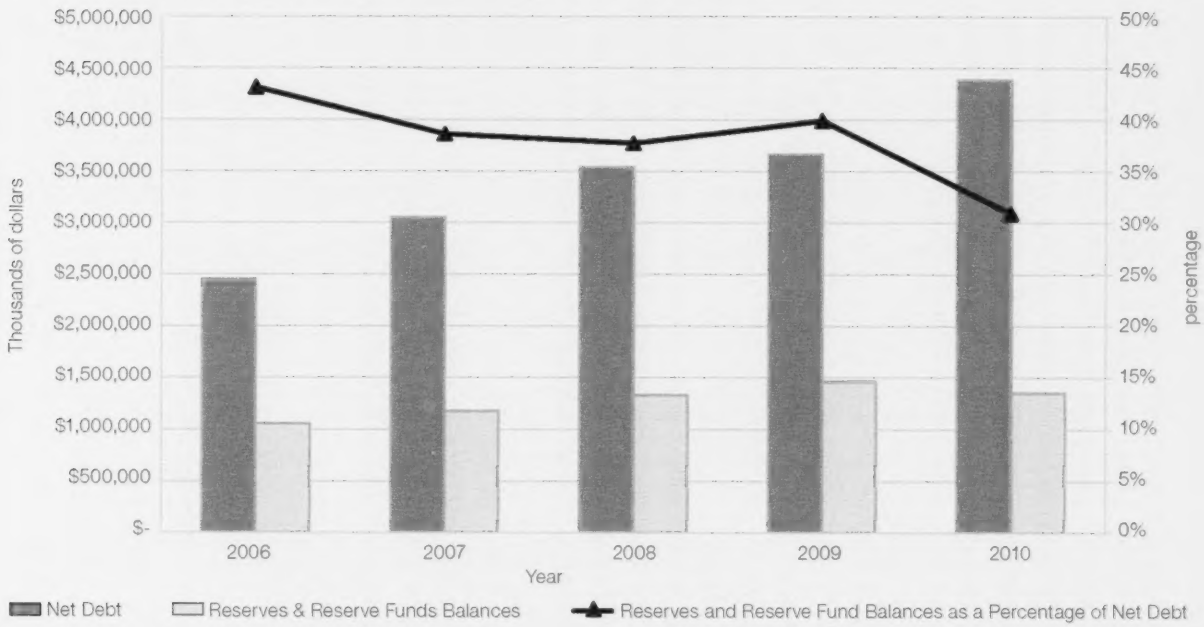
The balances of all the Obligatory Reserve Funds are restricted for specific purposes as designated by legislation or contractual agreements and all capital reserves/reserve funds are required to replace and maintain capital assets. Also, the current balances of some reserve funds (e.g. Employee Benefits) provide only a small portion of the funding to cover the future obligations for which they have been set aside.

If the Obligatory Reserve Funds were included in Chart C, then the Reserve & Reserve Fund Balances as % of Net Debt would be 55.9% in 2010.

For financial statement purposes, PSAB requires that obligatory reserve fund balances (such as development charges and unspent provincial public transit funding) be classified as deferred revenue (Note 10 (a) of the Consolidated Financial Statements). As a result, the reserve and reserve fund balances in the financial statements (Note 18), are lower than those included in staff reports to the Budget Committee and Council.

Chart C

DISCRETIONARY RESERVES AND RESERVE FUND BALANCES AS A PERCENTAGE OF NET DEBT



Analysis of Key Asset and Liability Accounts

Accounts Receivable

Accounts receivable balances decreased $54M in 2010. The decrease consists primarily of the following:

- higher receivable from Government of Canada ($9.1M) due to the following:

	(in thousands of dollars) Increase (Decrease)
Canada Strategic Infrastructure Fund (CSIF)-receipt of funds in 2010	(55.3)
Federal Gas Tax – receipt of funds in 2010	(81.4)
Harmonized Sales Tax Rebates	55.7
G20 Summit Expenses (City and Toronto Police)	75.4
Infrastructure Stimulus Funds	13.0
Other increases	1.7
Total	**9.1**

- lower receivable from Government of Ontario ($79.1M) due primarily to the following:

	(in thousands of dollars) (Decrease)
Social Housing Renovation and Retrofit Program (SHRRP)	(22.9)
Ontario Bus Replacement program (OBRP) received in 2010	(48.7)
Ministry of Transportation – Move Ontario (York Spadina Extension)	(3.3)
Other increases and decreases	(4.2)
Total	**(79.1)**

- increase in receivable from York Region regarding their subway contribution ($17.7M).

- decrease in Water fees receivable is attributable to lower metered consumption of water for 2010 as compared to 2009 resulting in lower year end accrual of $7.6M in 2010.

The breakdown of accounts receivable at December 31, 2010 with 2009 comparatives is as follow:

	(in thousands of dollars)	
Accounts Receivable	**2010**	**2009**
Government of Canada	254,476	245,362
Government of Ontario	149,997	229,066
Other municipal governments	40,065	20,940
School board	,786	199
Utility fees	115,205	122,407
Other fees and charges	470,447	468,005
Total	**1,031,976**	**1,085,979**

Taxes Receivable

Taxes receivable consists of all outstanding taxes, items that have been added to the tax roll (such as utilities arrears, drainage charges, and local improvement charges), accumulated penalties and interest charges, net of an allowance for uncollectible taxes. A breakdown of this receivable is noted below:

	(in thousands of dollars)	
Taxes Receivable	**2010**	**2009**
Current year	220,077	228,172
Prior year	36,453	34,455
Previous years	31,140	35,829
Interest/penalty	39,811	38,801
Less: allowance for doubtful accounts	(27,094)	(24,169)
Net receivables	**300,387**	**313,088**

Other Assets (Note 4)

Other assets comprised mainly of loans receivable from various organizations. Other Assets decreased by $49.1M to $112.1M (2009: $161.1M) due primarily to a decrease of TCHC loans recoverable from developers of $44M.

Investments (Note 5)

Investments increased by $43.3M to $3.29B (2009: $3.25B) due primarily to additional funds received from the Federal Government for Canada Strategic Infrastructure Fund (CSIF) and Federal Gas Tax in 2010.

Note Receivable – Toronto Hydro Corporation (Note 6)

On April 1, 2010, the Toronto Hydro Corporation note receivable of $490,115 was sold to a third party for cash consideration of $528,000, resulting in a gain on sale of $37,885.

Investment in government business enterprises (GBEs) (Note 7)

Investment in government business enterprises increased by $69M due primarily to increases in GBE earnings.

Additional information regarding the City's remaining GBEs as at December 31, 2010, including 2010 transactions for all GBEs with the City and condensed financial results, are provided in Note 7 and Appendix 1 to the Consolidated Financial Statements.

Accounts Payable (Note 9)

The breakdown of accounts payable and accrued liabilities at December 31, 2010 with 2009 comparatives is as follows:

	(in thousands of dollars)	
Accounts Payable	**2010**	**2009**
Local Board trade payables	533,279	453,652
City trade payables and accruals	1,060,398	819,882
Payable to school boards	177,695	143,902
Provision for tax appeals & rebates	452,766	411,997
Credit balances on property tax accounts	57,852	63,889
Wages accruals	161,537	130,410
Total	**2,443,527**	**2,023,732**

- Local board trade payables were higher in 2010 primarily due to increases in Toronto Transit Commission (TTC) trade payables for $62.4M.
- City trade payables and accruals are higher ($240.5M) due to the following:

	(in thousands of dollars)
	Increase
Harmonized Sales Tax Payable to Federal Government	8.0
Trade Payables processed at year end	66.8
Holdbacks	40.0
Municipal Services Damage Guarantee (MSDG) Deposits	10.3
G20 Summit expenses	27.0
Unearned Advances for Ontario Works Program	45.7
Year end accruals including Toronto Water	33.5
Other increases and decreases	9.2
Total	**240.5**

- Payable to school boards was higher in 2010 primarily due to higher tax levy for Toronto District School Board $28.95M.
- The provision for tax assessment appeals increased by approximately $40.8M primarily as a result of unprocessed pending assessment appeals, and vacancy, charitable and heritage rebates.
- Wages accruals were higher as an additional day's pay was accrued in 2010 ($12M), accrual for outstanding settlements ($10.4M) and additional accrual for lieu time liability ($8M) in 2010.

Deferred Revenue (Note 10)

Deferred Revenue decreased by $136M to $1.43B (2009: $1.58B) primarily as a result of:

- a decrease in obligatory reserve funds of $130.5M for Public Transit and Water & Wastewater, used for capital purchases;
- wind-up of the Ontario Bus Replacement Program (OBRP) ($44.5M) in 2010; offset by
- increase in funds received for Development Charges and Planning Act ($49.8M).

Other Liabilities (Note 11)

Other Liabilities increased by $92M to $477M (2009: $385M), mainly as a result of:

- an increase in the property and liability claims provision ($63.4M);
- increases in Toronto Transit Commission (TTC) in unsettled accident claims ($17.2M); and
- increase in deposits held for Exhibition Place and National Trade Centre ($7.6M).

Net Long-Term Debt, excluding TCHC Mortgages (Note 14)

Net long-term debt increased by $92M to $2.89B (2009: $2.80B) as follows:

	(in thousands of dollars)
	Increase (Decrease)
Issuance of Debt – City	702.2
– TCHC	261.0
– Other ABC's	2.0
Debt Repayment – City (includes $600M paid into the sinking fund)	(813.5)
Debt Repayment – TCHC	(7.2)
Interest earned on sinking funds	(52.6)
Total	**91.9**

Employee Benefit Liabilities (Note 15)

Employee liabilities were projected, with the same assumptions and methods as those used in the December 31, 2009 valuation, with the exception of the discount rate. The discount rate dropped from the previous valuation, increasing the liability for both WSIB and post employment benefits. As a result of this valuation, the gross employee benefits liability (identified as "Total employee accrued benefit obligation" in Note 15 of the Consolidated Financial Statements) increased by $144M to $2.61B (2009 – $2.46B). The unamortized actuarial gain of $107.3M was offset by unamortized actuarial loss of $123.8 resulting from the review of TTC Pension Plan being undertaken in 2010 with the change being accounted for on retroactive basis (See Note 2 of the Consolidated Financial Statements). This resulted in net unamortized actuarial losses of $16.5M for 2010.

The net employee benefit liability increased by $86M to $2.59B (2009 – $2.50B), as the prior years' amortization of actuarial losses exceeds the amount of the gain reflected in 2009. The $86M increase is largely due to:

- decrease in the non-OMERS pension plan liabilities ($80.5M);
- increase in sick leave benefits ($5.5M);
- increase in workers' compensation benefits ($34.7M);
- increase in post-employment benefits ($184.2M); and
- decrease in unamortized gain ($58.4M) due to amortization.

Tangible Capital Assets (Note 16)

Note 1 to the consolidated financial statements outlines the significant accounting policies providing an overview of the policy of recording tangible capital assets.

The breakdown of tangible capital assets, as well as accumulated amortization, as at December 31, 2010 with 2009 comparatives, are presented in Note 16 and Schedule 1. Tangible capital assets by entity are presented in Appendix 4.

During the year, consolidated asset additions totalled $2.26B, with the most significant portion being building and building improvements of $588M. This consists of $244M at the TCHC, $69M at the TTC, $29M at the Toronto Public Library, $130M at the Toronto Port Lands Company, $13M at the Toronto Police Services and $101M at the City. The City's largest acquisition was the Toronto Port Lands Corus Building for $123M.

During the year amortization of tangible capital assets decreased $53M to $1.02B (2009 – $1.07B).

Inventories and Prepaid Expenses

Inventories and prepaid expenses totalled $282M (2009: $206M). The increase was generated largely by the following: prepaid payments to Ontario Works recipients ($20M); prepaid related to Children Services ($19.9M); Surplus City Land ($11.5M); and increase in supplies for pandemic preparation ($1.8M).

Consolidated Expenses

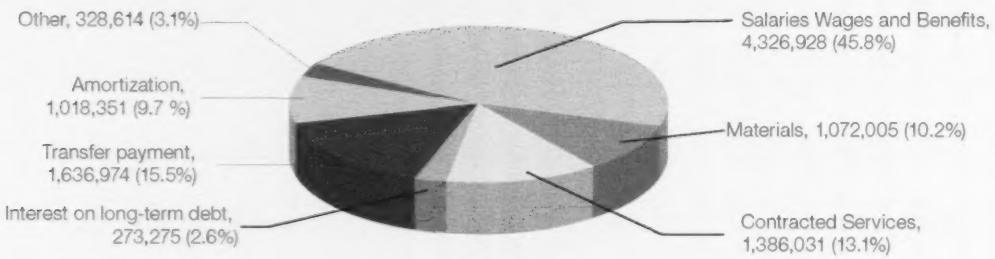
Gross consolidated expenses for 2010 totalled $10.5B (2009: $9.9B). The increase was generated largely by inflationary increases (wages, materials and contracted services), increased employee benefit liabilities and increased interest charges on long-term debt.

Chart D breaks down the gross expenses by cost object. Salaries, wages and benefits accounted for the largest portion at 45.8% of the total amount. It should be noted that principal re-payments on debt are not included as they are considered financing transactions for accounting purposes and are not considered expenses.

Chart D

EXPENDITURES BY OBJECT – CURRENT OPERATIONS

(in thousands of dollars)


Other, 328,614 (3.1%)
Amortization, 1,018,351 (9.7 %)
Transfer payment, 1,636,974 (15.5%)
Interest on long-term debt, 273,275 (2.6%)
Salaries Wages and Benefits, 4,326,928 (45.8%)
Materials, 1,072,005 (10.2%)
Contracted Services, 1,386,031 (13.1%)

Note 21 to the Consolidated Financial Statements provides a consolidated (operating and capital) summary of expenses by object.

Table 2 provides a comparison of 2010 Consolidated Net Revenue by program versus budget, and also shows 2009 actuals.

Table 2

Consolidated Net Revenue by Program

(in thousands of dollars)

	2010 Budget	2010 Actual	Difference	Change	2009 Actual
Revenues					
Property Taxation	3,688,830	3,859,765	170,935	4.4%	3,655,880
Taxation from other governments	92,281	108,656	16,375	15.1%	100,179
User Charges	2,579,932	2,529,093	(50,839)	(2.0%)	2,309,164
Funding transfers from other governments	3,752,573	3,173,242	(579,331)	(18.3%)	2,993,468
Government Business Enterprise Earnings	–	153,294	153,294	100%	115,012
Investment Income	155,934	265,990	110,056	41.4%	282,217
Development Charges	144,057	92,162	(51,895)	(56.3%)	83,144
Rent and Concessions	315,857	372,959	57,102	15.3%	355,005
Other	700,704	540,861	(159,843)	(29.6%)	520,422
Total	**11,430,168**	**11,096,022**	**(334,146)**	**(3.0%)**	**10,414,491**
Expenses					
General Government	1,056,940	1,065,764	(8,824)	(0.8)%	803,504
Protection to persons and property	1,565,075	1,569,710	(4,635)	(0.3%)	1,525,221
Transportation	2,770,454	2,833,944	(63,490)	(2.2%)	2,696,197
Environmental services	1,046,129	883,897	162,232	18.4%	873,684
Health services	389,640	401,271	(11,631)	(2.9%)	376,463
Social and family services	2,241,798	2,040,833	200,965	9.8%	1,946,444
Social Housing	843,870	818,287	25,583	3.1%	837,786
Recreational and cultural services	884,643	795,910	88,733	11.1%	769,110
Planning and development	148,488	132,562	15,926	12.0%	126,991
Total	**10,947,037**	**10,542,178**	**404,859**	**3.8%**	**9,955,400**
ANNUAL SURPLUS	**483,131**	**553,844**			**459,091**

The budget column included in the Consolidated Financial Statements reflects the approved budget at the time the tax levy is approved by Council. Although City Council approves revisions to the budget throughout the year, these amendments are not reflected in the budget column shown in the Consolidated Financial Statements (see Note 19 in the Consolidated Financial Statements). The budget is however, adjusted to exclude purchases of tangible capital assets from expenses, to also exclude debt principal from revenues and expenses, and to allow for amortization of tangible capital assets.

Table 2 reflects the combined operations of the operating, capital, reserve and reserve funds for the City and its consolidated entities.

Revenues

While the annual budget process focuses primarily on property tax increases, it must be emphasized that property taxes are only one of the City's many revenue sources. In 2010, property taxes made up 41.41% (2009 – 40.97%) of the City's operating revenue.

Property taxes exceeded budget by $170.9M primarily due to the following:

- Higher than anticipated Supplementary Taxes $40.3M; and
- Municipal Land Transfer Tax (MLTT) revenue exceeded budget by $103.4M.

Taxation from other government (Payments in lieu of taxes) exceeded budget by $16.4M due to the following:

- Primarily the result of confirmation that amounts due from the Canadian Broadcasting Corporation for levies issued in 2010 and prior years were no longer deemed uncollectable.

User fees were under budget by $50.8M due to:

- Under achievement of revenues for business and animal licensing revenues $1.7M and shortfall of $1.5M in Golf facility permits and leases and agreements;
- Lower than budgeted revenue of $9.8M mainly from lower water sales revenue;
- Lower sewer surcharge revenue of $6.8M due to reduced revenue from lower than budgeted tonnes of Biosolids received from Toronto Water Division for $2.5M, lower transfer station and recoveries revenues due to a lower waste generation/higher diversion rate for $3.3M;
- Delayed roll-out of Multi-Residential Source Separated Organics (SSO) resulting in lower sales of multi-unit residence toters ($2M); lower than budgeted residential bin fee revenue of $1.9M; offset by higher than budgeted revenue of $2.9M from sales of materials including recyclables and whitegoods and other material; and
- Lower than budgeted revenues for Police Services ($25.9M) due to G20 event, however costs were recovered from other levels of government.

Funding Transfers from other governments were under budget by $579.3M primarily due to:

- Under spending in TTC projects for Spadina Subway extension, Infrastructure Stimulus projects and Streetcar purchases by $145M;
- Lower than budgeted spending for TTC Transit City project of $302M;
- Operating subsidy variance of $69M in Shelter, Support & Housing Administration due primarily to lower subsidies of $63M than budget in Social Housing activities; and
- Operating subsidy variance of $147M in Toronto Employment and Social Services (TESS) is mainly due to lower eligible expenditures for Ontario Works (OW) Financial Assistance and Enhanced Employment Services (EES).

Government Business Enterprise Earnings ($153M) represents the earnings from Toronto Hydro Corporation, Toronto Parking Authority and Enwave. Details are available in Note 6 and Appendix 1 of the Consolidated Financial Statements.

Investment earnings were higher than budget by $110M mainly due to a capital gain arising from the sale of Toronto Hydro Note of $38M, and a higher than forecasted rate of return combined with a low interest rate used to allocate investment earnings to City reserve funds.

Development Charges revenues applied to capital spending were under budget by $52M, due to under spending on capital projects, as a result of an inability to find and secure suitable sites, delays in construction start-up, and deferral of work. As an obligatory reserve, development charges are recognized as the funds are spent for the intended purposes.

Rent and Concessions were higher than budget by $57M due primarily to higher rental and concession revenues at the agencies, boards and commissions.

Other Revenues were lower than budget by $157M primarily due to funding for capital projects that were under spent.

Expenses

Gross consolidated expenses for 2010 totalled $10.5B (2009: $9.9B). The increase was generated largely by inflationary increases (wages, materials and contracted services), increased employee benefit liabilities and increased interest charges on long-term debt. A breakdown of other contributing factors by function is as follows:

- Transportation including Roads/Traffic signals maintenance and Transit. Transportation services was $64M more than budget, primarily due to amortization costs of $94.5M, offset by savings in gross expenditures by $30.4M from savings in salaries and benefits ($8.8M); under spending of in the Winter Maintenance program ($12.6M) as a result of the mild weather; and the Utility Cut Repair program because of lower utility cut contract bidding prices ($5.4M).

- Environmental services spending was lower than budget by $162M due primarily to:
  - Water/Wastewater year end capital spending ($107.9M) under budget;
  - Solid Waste Management Service lower spending ($25.8M) due to lower debt charges of $10M (principal and interest), deferrals in maintenance type expenditures; lower than anticipated tonnage resulting in savings of $14.8M; lower discretionary spending of $5M due to delayed implementation of multi residential waste diversion programs; offset by higher cost of $6.3M mainly attributable to higher salaries and benefits; and
  - Toronto Water reported a gross expenditure savings ($31.67M) due largely from unfilled vacancies $11.62M, lower cost for road repairs managed by Transportation Services $6.6M, and a one-time reversal of bad debt expense $5.6M.

- Social and Family Services spending was lower than budget by $201M due to the following:
  - Ontario Works (OW) financial benefits were under spent by $27.7M mainly due to a lower than budgeted OW caseload;
  - Social Housing Administration gross savings of $74.0 is due primarily to:
    - $62.2M due to delays in flow through of Social Housing Renovation and Retrofit Program (SHRRP) payments because of milestones requirements, the funds were not disbursed. These agreements have been extended to the end of 2011 in which the remaining funds will be advanced;
    - $6.3M due to actual property tax assessments for TCHC being less than budget;
    - $3.4M due to lower than budgeted cost factors such as mortgage renewal rates, market rental increases and delays in new affordable housing units coming on-line;
  - The $12.9M savings in Affordable Housing Programs are due to delays in commencing maintenance projects;
  - Long Term Care Homes had a year-end favourable Gross expenditure variance of $19.4M due to the following:
    - $7.9M is primarily attributed to reduced operating expenditures in both the homes and community based programs due to lower than anticipated provincial subsidies and grants;
    - $11.45M is due to delays by the Provincial Government in approvals and the proclamation of the new Long Term Care Homes Act to July 1, 2010 instead of January 2010 as originally planned, and this resulted in delays in spending of capital programs; and
  - Children's Services had a year-end favourable Gross expenditure variance of $12.3M for various maintenance projects due to delays encountered in negotiating design specifications and tender contracts etc.

- Recreational and cultural services spending was lower than budget by $89M due primarily to under spending of $70.6M on various capital projects and savings in expenditures of $15.4M due to cost containment on discretionary items.

- Planning and development spending was lower than budget by $16M due primarily to the following:
  - lower capital spending for various Toronto Waterfront projects of $89M due to longer time frame for site remediation, delay in awarding construction contracts and delays due to timeframe for finalizing the environmental assessment;
  - savings in expenditures of $5.6M, primarily related to savings in salaries and benefits; offset by
  - higher spending than budget, primarily due to consolidation of Toronto Port Lands Company (previously TEDCO), Build Toronto and Invest Toronto in total $30.5M; proportionate consolidation of Toronto Waterfront Revitalization Corporation (TWRC) $36.7M, and Business Improvement Areas (BIAs) $17.8M.

The five year summary of revenues outlined in Table 3 demonstrates that property taxes continue to be the slowest growing revenue source for the City. During this period, assessment growth has been relatively low. In addition, the City has been limited by provincial legislation and Council policy from extending tax rate increases on the commercial, industrial and multi-residential assessment base on the same basis as the residential base. The commercial, industrial and multi-residential property classes represent 55.9% of the City's tax revenue base.

As a result of the slow growth of property tax revenue, more reliance has been placed on user fees, senior government transfers and other sources of revenue to meet expenses and minimize property tax rate increases.

Five Year Summary of Revenues

Table 3

Consolidated Revenues – 5 year Summary

(in thousands of dollars)

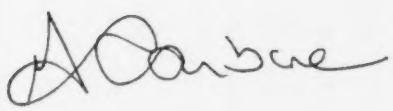
Revenues	Avg. Annual Increase	2010	2009	2008	2007	2006
Property taxes	3.42%	3,646,675	3,520,450	3,369,949	3,285,947	3,187,263
Municipal land transfer tax (MLTT)	29.70%	278,980	183,892	165,743	–	–
Personal vehicle Tax (PVT)	68.70%	42,766	51,717	14,992	–	–
User charges	4.65%	2,529,093	2,309,164	2,401,354	2,205,493	2,109,188
Government transfers	8.90%	3,173,242	2,993,468	3,025,828	2,188,715	2,256,719
Rent and Concessions	2.60%	372,959	355,005	355,591	347,317	336,523
Other	13.02%	1,052,307	1,000,795	404,383	833,064	644,792
Total	**6.78%**	**11,096,022**	**10,414,491**	**9,737,840**	**8,860,536**	**8,534,485**
Percentage Increase		6.54%	6.95%	9.90%	3.82%	

Risks and Mitigates

The City continues to face a number of risks that could have a negative impact on the City's financial future. These risks include: lack of long-term dedicated funding to assist the City in addressing its infrastructure deficit including building and expanding the transit system to meet the City's strategic goals and accessing non-property tax revenue sources that grow with the economy to ensure long term sustainable funding.

In 2010, the City continued to make progress to address these risks by continuing to implement its Long Term Financial Plan. Appendix A lists eight (8) specific financial issues/risks and the actions taken in 2010 to address them.

Highlights include: implementation of the new Illness or Injury Plan with Toronto Civic Employees Union (TCEU) Local 416 and Canadian Union of Public Employees (CUPE) Local 79, full funding of significant components of the Transit initiatives, and agreement from the Province to fully fund their 50% share of Ontario Works administration costs.



Giuliana Carbone
Treasurer

Toronto, Canada
July 14, 2011

APPENDIX A: KEY ISSUES/RISKS FACING THE CITY OF TORONTO

Issues/Risk	Actions Taken in 2010	Actions planned for 2011 and beyond
City has a higher cost structure than other municipalities in the GTA	• Continuous improvement initiatives and programs continued, to ensure appropriate use of resources. • City Council continued to adopt strict budget increase guidelines for City divisions and ABCs. • Cost containment measures remained in place. • Continued to develop the new Financial Planning, Analysis and Reporting system, approved by Council in 2007 for implementation (of Interim Plan) in 2011 for the 2012 budget process. The new system sets the foundation for multi-year performance/service-oriented operating budgets. The system will: o track and report performance measures and service level indicators; o align complement management and complement planning processes; o assess cost performance efficiency; o enable better alignment of the City's limited resources to Council priorities; o provide flexibility to incorporate and track long-term service planning initiatives; o establish the framework to balance service levels and priorities with affordability. • Continued to benchmark operations with other Ontario municipalities, and expanded benchmarking efforts to Calgary, Winnipeg and other world cities in 2010. • Implemented effective Jan 1, 2010 a new Illness or Injury Plan (IIP) for TCEU Local 416 and CUPE Local 79 which resulted in all employees hired after July 31, 2009, not being provided with a sick pay plan. In addition, existing employees had a one-time option to switch to the new IIP plan. As a result, 40% of employees switched to the new IIP plan resulting in a net reduction in current and future sick leave liability of $174.1 million.	• Apply aggressive budget reduction targets: (10% over 2010 and 2011, and 10% for 2012). • A multi-year approach is planned to address the operating pressure and capital funding gap. A Service Review Program will be implemented to identify what services the City should deliver, how they can be more efficient and cost effective, and how we should pay for them. The Service Review Program has three parts: o The Core Service Review will identify what services the City should be delivering. It will set the foundation for the City's services going forward and assist with moving towards a multi-year financial planning and budgeting process in 2013. o The User Fee Review will examine how City's services are paid for. It will develop guidelines on how user fee prices are set. o The Service Efficiency Studies will make sure that services do not cost more than they should, and identify new and more efficient ways to deliver them at a lower cost. • Implement "Ideas that Work", an employee engagement strategy, that will use various ways to gather employee ideas and suggestions for identifying service efficiencies and cost savings. • Maintain continuous improvement initiatives including enhanced performance measures and benchmarking. • Continue to develop and implement the new Financial Planning, Analysis and Reporting system to improve budget analysis and program rationalization. • Internal Audit and Auditor General continue to conduct audit reviews with a view to maintain and improve internal controls and identify opportunities for further efficiencies. • Continue to benchmark operations with other Ontario municipalities.

Issues/Risk	Actions Taken in 2010	Actions planned for 2011 and beyond
Demands for growth as laid out in the Official Plan or other Sectoral and Program plans are not adequately funded	• Move Ontario Trust was established in March 2006 for the purpose of holding, investing and disbursing funds to the Toronto York Spadina Subway Expansion project. A total investment of $870 million from the provincial government plus $75 million from the federal government was made. These funds are not included in the City's Financial Statements as they are held in a separate Trust Fund. • April 1, 2009 the Province of Ontario announced full funding for 3 significant components of the Transit City plan: the $4.6B Eglinton line from Kennedy Station to Pearson airport; the $1.2B Finch West line from Humber College to Don Mills Subway station; and the $1.4B Scarborough RT rehabilitation and extension. Although the timelines have been extended as part of the 2010 Ontario Budget, the Provincial commitment to these projects remains. • Moved forward on more than 500 infrastructure projects with the help of the federal/provincial economic stimulus program. The combined funding under the Infrastructure Stimulus Fund (ISF), Recreational Infrastructure Canada (RInC-REC) and Social Housing Renovation and Retrofit Program (SHRRP) totalled $460 million, and has created local jobs and improved infrastructure. Funding was available for two years for projects that will be materially built by Spring 2011. • Executed two loans totaling $100M through Municipal Infrastructure Lending Program (MILP, also part of the federal stimulus budget) to finance capital works for roads and bridge improvements.	• Continue to estimate the costs related to growth plans. • Province, Metrolinx and the City to jointly begin planning for the new transit plan "Transportation City", subject to Council approval, with the Province contributing $8.4 B towards the plan. Metrolinx is responsible for delivering the Eglinton Scarborough Crosstown LRT project. Toronto would be responsible for delivering the subway extensions along Sheppard Avenue (east and west). • Continue to complete infrastructure projects funded under the federal /provincial economic stimulus program with an extension to October 2011. • Execute a $20M loan through MILP to finance municipal infrastructure related to social housing redevelopment (so that the total value of the 3 loans executed over 2010 & 2011 is $120M); and continue to complete capital projects funded under this program.

Issues/Risk	Actions Taken in 2010	Actions planned for 2011 and beyond
There is a variability in certain program expenditures from year to year, some of which are vulnerable to economic down turns and interest rate fluctuations	• In 2007, the Province (through the Provincial Municipal Fiscal and Service Delivery Review – PMFSDR) agreed to fully fund the Ontario Disability Support Program (ODSP) and the Ontario Drug Benefit (ODB) program. ODB upload was completed in 2008 and the ODSP will be completed by 2011. Additionally, the Province agreed to: upload the cost of Ontario Works and Court Security by 2018; and, fully fund their 50% share of Ontario Work (OW) Cost of Administration (COA) starting in 2010. • Continued to work with the Province on a Toronto-Ontario partnership agreement on permanent, sustainable transit operating funding by December 2010. • Continued to take actions on other risks impacting the City with potential financial impacts: o Climate change adaptation and environmental risks management o Funding strategies for extreme weather by establishing Weather Risk Reserves o Establishing and funding Tax Rate Stabilization Reserve and Commodity Price Stabilization Reserve o Closely monitored the impacts of interest rate changes on Social Housing costs, investment returns and debt charges.	• Continue to work with the Province to operationalize the upload and refine the relationship regarding social and related services. The upload of: ODB was completed in 2008; ODSP will be completed in 2011; OW benefit costs begins in 2010 & will be completed by 2018; OW COA started in 2010. • Through the Social Service upload, the Province has re-established the principle that income support programs should not be funded from the property tax base. As such, the City will continue its discussion with the Province regarding its funding responsibilities for Social Housing. • Continue to work with the Province on the agreed upload of court security costs by 2018. • Continue to negotiate with the Province on permanent, sustainable transit operating funding (50% of transit operating costs). • Closely monitor key economic indicators and market conditions to identify trends and forecast impacts on expenditures and revenues, and continue to develop funding strategies to mitigate financial risks.
Business property taxes are not competitive with the surrounding urban area (905 area code)	• The City has continued the implementation of "Enhancing Toronto's Business Climate" initiative, adopted by City Council in October 2005 – a plan to reduce the ratio for property tax rates for businesses (i.e. commercial and industrial) and multi-residential properties to 2.5 times the residential tax rate by 2020 (a 15 year plan); and further, to provide for an accelerated reduction in tax rates for smaller businesses, with a target of 2.5 times the residential rate by 2015 (a 10 year plan). The estimated benefit to businesses over the 15-year period is approximately $250 million.	• Council approved a zero percent property tax increase for residents and businesses for 2011. • For 2011, Council has continued to accelerate tax rate reductions for properties that are included in the "Residual Commercial" tax class (includes commercial properties not included in the Commercial General tax class). For these properties, a lower tax rate applies to the first million dollars of a property's assessment (Band 1). The portion of the assessment above one million dollars is taxed at the "Commercial General" tax class rate (includes shopping centres, large office buildings, parking lots, vacant land and large sport facilities) (Band 2).

Issues/Risk	Actions Taken in 2010	Actions planned for 2011 and beyond
The City lacks adequate revenue sources to fund its municipal responsibilities	• Funding for capital projects from other orders of government has been secured over the years – e.g. Share of Gas Tax ($320 million per year); Transit City ($9 billion); Economic Stimulus Project funding ($460 million 2009 to 2011); one-time transit funding between 2006 and 2009 has ranged from $58 million to $238 million per year. • The new City-wide Sign Bylaw and the Third-Party Sign Tax came into effect on April 6, 2010. However, a subsequent court ruling has limited the full application of the Sign Tax, potentially reducing revenues that the City would otherwise collect, subject to appeal by the City.	• Update the Long Term Fiscal Plan in 2011/2012. • Continue to negotiate with the Province on permanent, sustainable transit operating funding (50% of transit operating costs). • Continue to work with the Provincial and Federal governments to secure long term permanent funding solutions. • Continue the appeal process for the Third Party Sign Tax.
Improper funding of Provincial cost-shared programs has resulted in significant financial pressures to the City	• Received provincial commitment to fund their share of administration costs of Ontario Works.	• Province to continue honouring its cost sharing formulae for Ontario Works. • Continue to highlight costs and requirements in areas of joint responsibility, such as social housing and transit.
City's investment in ageing infrastructure has been lagging	• The City continued to plan for capital on a 10 year basis. • Continued to invest funds in State of Good Repair Reserve Fund.	• Approval of firm 10-year Capital Plan. • Continue to increase direct operating budget contribution to capital program to offset a portion of debt requirements. • Further enhance asset management planning. • Continue to seek funding for transit projects from provincial and federal governments.
Employee benefits and other long-term liabilities are not adequately funded	• The City completed full actuarial reviews of its employee benefit plans. • Implemented effective Jan 1, 2010 a new Illness or Injury Plan (IIP) for TCEU Local 416 and CUPE Local 79 which resulted in all employees hired after July 31, 2009, not being provided with a sick pay plan. In addition, existing employees had a one-time option to switch to the new IIP plan. As a result, 40% of employees switched to the new IIP plan resulting in a net reduction in current and future sick leave liability of $174.1 million. For management and non-union staff, a similar Short term Disability Plan was already implemented on March 1, 2008.	• Implementation of approved strategies to reduce the funding gap between employee benefits reserve and the liabilities o First stage: to require ABCs to contribute annual funding to the Sick Leave Reserve Fund to match budgeted withdrawals (pay as you go) and o Second stage: to revise the annual benefit charges to Divisions and applicable ABCs to reflect additional funding requirements for retired employees, employees on long-term disability, workplace safety (pre-amalgamation) and sick leave gratuity payouts. • Further implementation of cost containment and employee education strategies consistent with recommendations made by the Mayor's Fiscal Review Panel and the Auditor General's Office.